

Towards Improving Financial Services in the Aging Society

Public-Private Financial Roundtable

Aging Society and Financial Services

Task Force

Executive Summary

- ◆ As a result of free and vigorous discussions joined by outside experts as well, participant institutions of the “Aging Society and Financial Services Task Force” arrive at the recognition of the benefits of the mechanics of the Public-Private Financial Roundtable, as well as several issues listed below. The Japanese financial services industry is expected to improve its capability to respond to the aging society, under the auspices of various actions to be taken briskly, in order to address the issues, by individual financial institutions and industry groups and also through the reinforcement of cooperation as well as the public and private collaboration.
- (1) Users of medical and nursing services and their families come to have various worries about money, including the receipt of insurance money and benefits, asset maintenance, and inheritance as well as the art of making ends meet for coping with expenses, when they start and continue using the services. Persons with such worries would find it beneficial if they are able to get information conducive to taking adequate initial actions from independent experts placed inside the organisations whose medical and nursing services they use.
- (2) Due to the rapidly declining birthrate and aging population, the number of retired people who need nursing care and the number of people of working age who are involved deeply with caring for their parents are greatly increasing. Because of this, the necessity will grow for the promotion of developing private insurance products on caring for the elderly.
- (3) Retired people need to manage their assets suitably by use of retirement benefits. The reality, however, is that many retired people do not recognise existing retail premises of banks and securities houses as their primary counselors; especially, securities houses seem to be unfamiliar to them.
 - ✓ Financial institutions are required to continue to make improvement efforts with a greater emphasis on the customer perspective, in not only providing their retired customers with necessary information but also in greeting them, in order to enhance social cognition and retired people’s trust on the retail premises as a consultation office for asset management.
 - ✓ In connection to this, it would be reasonable for financial institutions to consider exercising their ingenuity on how to take advantage of certificated financial planners that they already employ and to learn from new academic knowledge such as brain science.
 - ✓ It would be also beneficial for retired people to gain such an opportunity in a more light-hearted and comforted fashion in their communities as to be informed of basic information on the management of their retirement benefits and to be motivated to take on financial investments actually.

- (4) Most retired people have their own houses, and they will gradually find difficulty in making ends meet in their daily lives at the middle and late stages of post-retirement years. In this case, it is beneficial for them to obtain cash by selling their financial assets as well as using their houses for financing purposes.
- ✓ To smooth the use of used houses for financing purposes, enhancing the function of the secondary market for used houses is needed. It is necessary to make efforts to figure out the preparedness of the secondary market for used houses, building upon Ministry of Land, Infrastructure, and Transport's several policy measures.
 - ✓ It is desirable to deepen investigations on how private and government-affiliated financial institutions will soundly share the risk of lack of mortgages.
 - ✓ The rental market has depth to some extent, contrary to the secondary market, mainly in urban areas. For example, if a retired married couple with their own house in the city fine-tune the house, let it, and borrow housing loans on the security of cash flows of rent money, then they will be able to build a house as they like in a suburb or rural area. This kind of "migrant" can be expected to gain a certain amount of popularity amongst retired people.
- (5) Regarding retired people, the number of elderly people who live alone apart from their families is growing. When such people try to use financial services, they often find it difficult to not only obtain necessary certificates from administrative institutions but also to send identifying information and information on their well-being. The increasing number of live-alone elderly people needs to be able to carry forward the procedures for using financial services indispensable for leading their lives, even if they remain passive to some degree.
- (6) Regarding people of working age, looking at the public pension system amid the advancement of the declining birth rate and aging population, it is necessary and important for them to start building assets early and make financial investments in their own right from the long-term perspective by purchasing small amounts of investment products in a regular and continuous fashion.
- ✓ To develop and offer for sale financial products suitable for long-term investments by individuals paying small amounts of money in a regular and continuous fashion, individual financial institutions need to take such an attitude as to make profits in a long-term and frugal fashion from individual customers by installing in them a feeling of trust through the formation of long-standing relationships with them.
 - ✓ The Japanese version of the Individual Savings Account (nicknamed "NISA," hereinafter) will benefit individuals who purchase investment trusts developed and offered for sale as such. It is desirable to popularise the use of the NISA by individual investors.
- (7) People of working age will not actually purchase financial products for long-term investments through regular accumulation of money, without financial literacy, or the

awareness of the necessity of starting to build assets for the future as well as of the importance of saving small amounts of money in a regular and continuous fashion.

- ✓ Financial industry groups and individual financial institutions already provide the public with booklets and other relevant materials summing up fundamental knowledge on economy and finance. It is necessary to expand effective places where people of working age are able to actually acquire such financial literacy. This means that it is desirable for financial institutions to mobilise their own networks.
- ✓ Regarding the defined contribution pension system (“DC system,” hereinafter), the allocation for deposits and savings in the system is considerably larger than that in the defined benefit corporate pension system. Based on this, it is desirable for financial institutions serving as operational management institutions in the DC system to strengthen their cooperation with business owners who are using the DC system and are in charge of providing their participating employees with appropriate educations on financial investments.

(8) To support Working Mothers, it is desirable that financial institutions will revise proactively the making of their webpages and the policy of operating their retail premises by not only taking into account Working Mothers’ busy lifestyle, but also by focusing attention on the possibility that Working Mothers’ needs will be prominent once concrete purposes and clear stories are expressed.

(9) To encourage the wealthy to play more active roles as a risk-taking provider of funds inducing economic growth, with recognition of their distinct aspect that they are keen to work hard for social contribution activities as well as their own enterprises, it is desirable that financial institutions will improve customer-facing methods and sales tactics with such a sale technique as to provide the customers with information beneficial for their social and economic activities, through (i) systematically combining human resources and information accumulated in in-house departments and intra-group subsidiaries and corporate venture capital, and (ii) mobilising the combined human resources and information in sales and marketing activities.

◆ In accordance with these issues, some participant institutions including the Financial Services Agency will take new actions as follows:

① In relation to the issue (1), The Japan Association for Financial Planners will encourage providers of medical and nursing services to prepare, inside their premises, independent experts who will help their customers take initial reactions leading to sorting out their worries about money.^(*) If such independent experts, who can be tentatively called “Financial Concierges,” are actually set up by the providers, then the Japanese Bankers Association, the Regional Banks Association of Japan, the Trust Companies Association of Japan, The National Association of Shinkin Banks, The Life Insurance Association of

Japan, The General Insurance Association of Japan, and the Japan Securities Dealers Association will expand awareness of the “Financial Concierges” amongst their member financial institutions and deal with it as they think fit.

(*) As a fixed-term pilot project, the Japan Association for Financial Planners will dispatch “Financial Concierges” to the Kawakita General Hospital (Suginami city, Tokyo). And also they will be assisted by the Tokyo Metropolitan Hospitals Association in order to find a hospital that will subsequently collaborate on the pilot project.

- ② In relation to the issue (2), The Life Insurance Association of Japan will encourage member companies to exercise their originality and ingenuity, such as by collecting sample data independently, for the promotion of developing nursing-care insurance products. The Financial Services Agency will be a constructive counselor for insurance companies and will conduct swift and smooth examination in the approbation process of new insurance products.
- ③ In relation to the issue (3), when financial institutions of different types collaborate and jointly hold events, such as a symposium, for retired people in their communities, in which general information on and the significance of asset management by individuals will be discussed, the Financial Services Agency and Local Financial Bureaus will support such efforts in association with The Central Council for Financial Services Information and The Council for Financial Services Information.
- ④ In relation to the issue (4), the Japan Trans-housing Institute will lobby financial institutions to understand better a special facility operated by the Institute, in order to make it more feasible for users of the facility to borrow housing loans on the security of guaranteed cash flows of rent money.
- ⑤ In relation to the issue (5), mainly based on discussions in this task force as well as consumers’ opinions, The Life Insurance Association of Japan (i) will make a report which distills challenges and introduces excellent actions already taken by member companies with respect to procedures and services for elderly people, especially those living alone, and (ii) will support member companies coming up with new actions.
- ⑥ In relation to the issue (5), in order to make it possible for people whose energy is decreasing both physically and psychologically due to the decline of health and life functions, like live-alone elderly people, to use financial services indispensable for leading their lives, relevant financial industry groups and the Financial Services Agency will investigate, as a medium- and long-term agendum, the application potency, on the basis of the premise of customers’ contest, of the Social Security and Tax Number System, with reference to the actual conduct of the system as well as public opinion, if it is established.
- ⑦ In relation to the issue (6), to increase the attractiveness of investment trusts in the

spheres of both product development and distribution so as to meet the needs of working-age people to make financial investments from the long-term perspective by paying small amounts of money in a regular and continuous fashion, the Japan Securities Dealers Association and The Investment Trust Association, Japan, will promote and support new actions taken by member companies. Likewise, The Life Insurance Association of Japan and The General Insurance Association of Japan will support member companies by making efforts to increase public recognition of savings-based insurance products, such as private pension insurance products, and non-life insurance products of accumulation type with a savings feature, respectively.

- ⑧ In relation to the issue (6), to popularise the use of the NISA by individual investors, the Japan Securities Dealers Association will make necessary investigation mainly of how to make the NISA known by the public at a newly created review session. The Financial Services Agency will propose the establishment of a liaison council in which not only securities firms' community but also other types of relevant financial institutions take part, and intends to continue to encourage the council participants to make public-private collaboration efforts to address future tasks relating to the participants in common.
- ⑨ In relation to the issue (7), to encourage DC system participants to enhance interest in their own pensions, The Japan Defined Contribution Pension Plan Administrators Association will encourage business owners who are using the DC system and are responsible for providing necessary education to their participating employees to conduct successive and effective education not only when they first introduce the DC system but also afterward. In addition, the Association will propose the application of the matching contribution system for business owners whose employees participating in the DC system are allowed to contribute their own money.

Towards Improving Financial Services in the Aging Society

1 Introduction

1.1 Design of investigation

- ◆ Participants in the first meeting of the Public-Private Financial Roundtable held on 25th September, 2012, (i) recognised improving financial services in the aging society as one of the subjects of future investigation, and (ii) brought up two broad issues as follows:

Issue A: Financial products and services accommodating the needs of the elderly.

Issue B: Financial products responding to the declining birthrate and aging population.

- ◆ In response to this, the “Aging Society and Financial Services Task Force” (“our task force,” hereinafter) was created. Our task force advanced investigation with the practical aims of finding new needs to be accommodated and potential wants in the aging society, as well as examining concrete measures to satisfy such needs and wants.
- ◆ In doing so for Issue A, our task force focused mainly on retired people and made studies from the following perspectives.
 - What new needs and potential wants do retired people and their families generate regarding money and finance when they use medical and nursing services?
 - What new needs and potential wants do retired people generate in building their assets and using their own houses for financing purposes?
 - Facing declining cognitive brain functions due to advancing age as well as increasing inconveniences of life that retired people find when they live alone, what new needs and potential wants do retired people generate concerning financial institutions?
- ◆ For Issue B, our task force focused on people of working age and made studies from the following perspectives:
 - Facing an increasing necessity to start asset-building promptly for the future, what new needs and potential wants do young and middle-aged people generate regarding the selection of financial products for long-term investments as well as the acquisition of knowledge and information serving their decision-making?
 - In a situation where the number of women continuing to work after marriage and childbirth is increasing, what new needs and potential wants do those women generate concerning financial institutions?
 - What new needs and potential wants do the wealthy generate concerning financial institutions when they put part of their wealth to purposes that would result in the induction of economic growth?

1.2 Structure of our task force

- ◆ Our task force has held face-to-face meetings once or twice a month since October 2012;

the meetings were held eight times in total. Participant institutions dispatched banking and finance practitioners to our task force (“task force members,” hereinafter). The task force members gathered and held vigorous free discussions in the meetings whilst they received stimulation from presentations made by other task force members and outside experts.

- ◆ Most of the participant institutions are members of the Public-Private Financial Roundtable as follows:

Japanese Bankers Association, Regional Banks Association of Japan, The Second Association of Regional Banks, Trust Companies Association of Japan, The National Association of Shinkin Banks, Community Bank Credit Cooperative, The Life Insurance Association of Japan, The General Insurance Association of Japan, Japan Securities Dealers Association, The Norinchukin Bank, Japan Finance Corporation, Development Bank of Japan, and Financial Services Agency of Japan (whose Planning Division, Planning and Coordination Bureau worked as an organiser as well).

- ◆ The participant institutions included non-members of the Public-Private Financial Roundtable whilst the task force members also included individual experts, as below (honorifics omitted):

Japan Association for Financial Planners, National Association of Labour Banks, Hisashi Ogaki (Ritsumeikan University), Daisuke Iwase (Lifenet Insurance Company).

- ◆ The task force members are grateful to the outside experts for presentations they made in response to the organiser’s requests. They are listed in Japanese alphabetical order by their surnames as follows (honorifics omitted):

Tomoya Asakura (Morningstar Japan K.K), Naoko Ueda (Living Kurashi HOW Institute Inc.), Keiko Kato (K-Planet Corporation), Naoki Kanakubo (Corporate Strategy Planning Department, Gokeikai Medical Foundation), Ryuta Kawashima (Institute of Development, Aging and Cancer, Tohoku University), Osamu Goto (A.T. Kearney K.K), Toshiro Kojima (Nomura Institute of Capital Markets Research), Kenichi Sakura (Bank of Japan), Tomoya Hasebe (Bain & Company Japan, Inc.), Makoto Naruke (Inspire Corporation), and Daisuke Yabuki (A.T. Kearney K.K).

1.3 Structure of this report

- ◆ This report consists of (i) explaining specific issues useful for improving financial services in the aging society along with their backgrounds, and (ii) presenting new actions that some participant institutions and relevant bodies will take in order to address those issues.
- ◆ Such a structure reflects that the participant institutions share the benefits of the

mechanics of the Public-Private Financial Roundtable. It also reflects their expectation that the Japanese financial services industry's capability to respond to the aging society will improve under the auspices of various actions to be taken briskly, with reference to this report, by individual financial institutions and industry groups and also through the reinforcement of cooperation as well as the public and private collaboration.

2 Issue A: Financial Products and Services Accommodating the Needs of the Elderly

[Major examination object: retired people]

2.1 Needs relating to the use of medical and nursing services

2.1.1 Information services to users of medical and nursing services

- ◆ Users of medical and nursing services and their families come to have various worries about money, when they start and continue using the services. Such worries include the receipt of insurance money and benefits, asset maintenance, and inheritance as well as the art of making ends meet for coping with expenses. Persons with such worries would find it beneficial if they are able to get information conducive to taking adequate initial actions from independent experts placed inside the organisations whose medical and nursing services they use. Preparing such independent experts would be a good means for the organisations to provide user services.

- ◆ Based on this, some participant institutions will take new actions as follows:

[Future Action I]

The Japan Association for Financial Planners will encourage providers of medical and nursing services to prepare, inside their premises, independent experts who will help their customers take initial reactions leading to sorting out their worries about money. If such independent experts, who can be tentatively called “Financial Concierges,” are actually set up by the providers, then the Japanese Bankers Association, the Regional Banks Association of Japan, the Trust Companies Association of Japan, The National Association of Shinkin Banks, The Life Insurance Association of Japan, The General Insurance Association of Japan, and the Japan Securities Dealers Association will expand awareness of the “Financial Concierge” amongst their member financial institutions and deal with it as they think fit.

- As a fixed-term pilot project, the Japan Association for Financial Planners will dispatch “Financial Concierges” to the Kawakita General Hospital (Suginami city, Tokyo) in order to learn, through trial and error, how to improve operations, and also will be assisted by the Tokyo Metropolitan Hospitals Association in order to find a hospital that will subsequently collaborate on the pilot project.
- The role of the “Financial Concierge” is to provide advice on how to make ends meet as well as general knowledge and information regarding money and finance. The “Financial Concierge” will never provide advisory and agency services in relation to the

selection of specific financial institutions and financial products/services, the operation of tax and law procedures, or the transaction of real estate.

2.1.2 Enhancement of private nursing-care insurance products

- ◆ Due to the rapidly declining birthrate and aging population, the number of retired people who need nursing care and the number of people of working age who are involved deeply with caring for their parents are greatly increasing. This suggests that there should be potential wants for insurance products relating to nursing care.
- ◆ For example, it would be a good idea to create a single-premium annuity insurance in which the insured is a person with official certification of need for long-term care, with reference to the impaired annuity prevailing largely amongst British elderly. The size of pension that the insured with the certificate will draw from such a specially designed annuity insurance can be larger than that of a pension that a healthy insured will draw from a prevalent annuity insurance. This is because an annuity insurance generally provides the insured with money on condition of her/his existence. That is because, more importantly, of the recent literature reporting that the duration of life of people with the certification is presumably shorter than that of healthy people. An enhanced pension as such would be beneficial in providing livelihood support to people with the official certification of need for long-term care. Apart from retired people, when people of working age need to care for their parents, they encounter difficulties, such as decreases in wage income and increases in outgoings. This suggests that it should be worthy of consideration to develop insurance products in which a policyholder is a person of working age who needs to be a carer for her/his parents.
- ◆ The necessity will grow for the promotion of developing private insurance products on caring for the elderly. To meet this, in general terms, it is beneficial to expand and publish public data on nursing care. In addition, insurance companies are required to activate the development of those products with their own originality and ingenuity, including the independent collection of sample data. Based on this, some participant institutions will take new actions as follows:

[Future Action II]

The Life Insurance Association of Japan will encourage member companies to exercise their originality and ingenuity, such as by collecting sample data independently, for the promotion of developing nursing-care insurance products. The Financial Services Agency will be a constructive counselor for insurance companies and will conduct swift and smooth examination in the approbation process of new insurance products.

- The Financial Services Agency has permitted insurance companies to make insurance products based on sample data they collect independently when the data are rational and reasonable.

- *Comprehensive Guidelines for Supervision of Insurance Companies* published by the Financial Services Agency contains a precaution in the approbation process that the Agency will have ex-ante exchanges of views with applicant insurance companies, if the applicants request one. The Agency has already done so.
- In light of the two points above, The Life Insurance Association of Japan and the Financial Services Agency share the recognition that it will be beneficial for them to have a lively exchange of views on the adequacy and characteristics of sample data deserving to be used for the development of nursing-care insurance products.
- On that basis, the Financial Services Agency will increase further the predictability regarding the approbation process of new insurance products, mainly by clarifying what examination officers focus attention on.

2.2 Needs relating to financial and asset conditions

2.2.1 Asset management for retirement benefits

- ◆ Retired people need to manage their assets suitably by use of retirement benefits. However, the reality is that many retired people do not recognise existing retail premises of banks and securities houses as their primary counselors; especially, securities houses seem to be unfamiliar to them. It is desirable that financial institutions' retail premises will enhance social cognition and retired people's trust on the premises, in order to become inquiry counters for retired people managing their assets.
- ◆ For this, financial institutions have to prepare retail premises in which sales people function as counselors for their retired customers by gleaning detailed interest and worries from each of them. To this end, sales people are required to stay present with retired customers and gain the customers' faith in them by having the customers find something congenial in them. Individual financial institutions are required to continue to make improvement efforts with a greater emphasis on the customer perspective, in not only providing their retired customers with necessary information but also in greeting them. In connection to this, it would be reasonable for financial institutions to consider exercising their ingenuity on how to take advantage of certificated financial planners that they already employ.
- ◆ In making improvement efforts with a greater emphasis on the customer perspective of retired people, it would be beneficial for financial institutions to learn from brain science and psychology. In brain science, it is reported that adult human cognition, which is determined by people's brain function, should averagely decline with age whilst this process should progress with considerable differences from individual to individual. However, many elderly people behave as adults. This is because each elderly person compensates the decline in cognition with knowledge accumulated throughout life; in other words, wisdom. Based on this mechanism, financial institutions may find room to

use some ingenuity with respect to the modality of treatment made at retail premises by their sales people to retired customers as well as to the orientation of selling activities deployed there by the sales people to those customers.

- Typically, elderly people tend to have difficulty in memorising what they say and listen to when signing a contract. The art of conversation constructed with reference to knowledge of brain science and psychology will be useful for helping elderly customers store and recall memories as well as identifying patients with dementia amongst elderly customers. When sales people give item descriptions to elderly customers, for example, it would be effective to convey the important information, which must be remembered by the customers, with repetitive explanations and visual stimulus, as well as by asking relevant questions intentionally to the customers in the course of conversation so as to provide them with opportunities to say their answers.
- Elderly people can restrain the decline of their brain function or activate it by learning something and exercising. It is essential for the maintenance and expansion of sound individual investors that financial institutions create opportunities, such as seminars, in their retail premises for retired people to study economy and finance; and, that financial institutions encourage retired people to carry on paying attention to economic and market conditions by implementing customer care after they purchase financial products.
- In this regard, it must be noted that the wisdom formed by individual elderly people depends on their life experience, including their past occupations. Retired people have lived long, and this makes their wisdom greatly different from each other. Therefore, when financial institutions conduct face-to-face sales and marketing for elderly people, it is important for sales people to not only grasp the size of assets and the experience of investments that their customers have, but also to pay attention and show deference to how they have been so as to help them understand financial products and services fully.
- ◆ Apart from visiting financial institutions' retail premises, it is beneficial for retired people to gain such an opportunity in a more light-hearted and comforted fashion in their communities as to be informed of basic information on the management of their retirement benefits and be motivated to actually take on financial investments. For example, it would be a good idea to hold a symposium for retired people in their communities, in which general information on and the significance of asset management by individuals will be discussed.

[Future Action III]

When financial institutions of different types collaborate and jointly hold events, such as a symposium mentioned above, in order to provide retired people with an opportunity in their communities to get motivation to investigate, in a more light-hearted and comforted fashion, the management of retired benefits, the Financial Services Agency and Local Financial Bureaus will support such efforts in association with The Central

Council for Financial Services Information (Secretariat: Bank of Japan) and *The Council for Financial Services Information* (Secretariat: Bank of Japan, mainly).

2.2.2 Using houses for financing purposes

- ◆ Most retired people have their own houses, and they will gradually find difficulty in making ends meet in their daily lives at the middle and late stages of post-retirement years. This increases the need for them to obtain cash by selling their financial assets as well as using their houses for financing purposes.
- ◆ Regarding reverse mortgages, it is difficult to forecast the resale value of used houses because the secondary market is immature. Therefore, whilst potential borrowers of reverse mortgages find some value of use for their houses, lenders of reverse mortgages are almost unable to find collateral value over their houses except for the ground that the houses are built on. Eventually, potential borrowers of reverse mortgages cannot borrow a satisfactory amount of money. Individual financial institutions are expected to develop new loan products and new methods of evaluating collateral-value, both of which will help retired people use their houses for financing purposes. To expand the use of reverse mortgages, more fundamentally, enhancing the function of the secondary market for used houses is needed. Such an awareness of problems is shared in *Comprehensive Plan for Renovation and Trades for Existing Houses* published by Ministry of Land, Infrastructure, and Transport in March, 2012.
- ◆ To enhance the function of the secondary market for used houses, our task force shares the importance to make it easier to recognise the quality of used houses to be used as collateral, and that used houses will be priced based on quality recognition, both of which will require inspections conducted by third-party specialists mainly on the degree of deterioration and the existence or non-existence of defects; and, such inspections should include the provision of ratings on the quality of used houses. In addition, our task force recognises the likelihood that private and government-affiliated financial institutions will establish funds that securitise claims of reverse mortgages and those that buy and sell houses collateralised for reverse mortgages, if the function of the secondary market for used houses is enhanced as such due to several efforts to be made by Ministry of Land, Infrastructure, and Transport. Thus, relevant participant institutions and the Financial Services Agency (i) take part in *Workshop on Utilizing and Promoting Trades for Existing Houses* set up by the Director-General, Housing Bureau, Ministry of Land, Infrastructure, and Transport as its private panel, and (ii) make presentations on the status quo and express their opinions.
- ◆ Looking at the U.S.A., with its advanced reverse mortgage market, public sector involvement in offsetting the risk of lack of mortgages and supporting the securitisation

of claims of reverse mortgages have contributed towards developing the market. However, there are concerns regarding the increasing number of new borrowers who apply for reverse mortgages as a refinancing method for extended housing loan obligations as well as the increasing number of such borrowers who end up defaulting as a result of running up bills with fixed assets tax.

- ◆ Thus, from the medium- and long-term perspective of smoothing the use of used houses for financing purposes, our task force shares the importance of making efforts to figure out the preparedness of the secondary market for used houses as well as the importance of deepening investigations on how private and government-affiliated financial institutions will soundly share the risk of lack of mortgages, in association with a wide range of parties related to housing production and finance.
- ◆ In connection to used houses, furthermore, it should be noted more that the rental market has depth to some extent, contrary to the secondary market, mainly in urban areas. For example, if a retired married couple with their own house in the city fine-tune the house, let it, and borrow housing loans on the security of cash flows of rent money, then they will be able to build a house as they like in a suburb or rural area. This kind of “migrant” can be expected to gain a certain amount of popularity amongst the so-called active seniors, or people of activity at the early stage of post-retirement years. In this situation, the Japan Trans-housing Institute, a general incorporated association, has already operated a financial facility of hiring used houses from owners aged 50 or over. The Institute lets hired houses in the rental market and guarantees stable rent money for original house owners, backed up by a guarantee fund established by the Foundation for Senior Citizens’ Housing with the use of the national budget. In response to discussions in our task force, the Japan Trans-housing Institute will take a new action as follows:

[Future Action IV]

The Japan Trans-housing Institute will lobby financial institutions to understand better the above-mentioned facility operated by the Institute, in order to make it more feasible for users of the facility to borrow housing loans on the security of guaranteed cash flows of rent money.

- Inspired by discussions in our task force, the Japan Trans-housing Institute has also started a new project so as to make it more feasible for those facility users to get long-term loans whose purposes are free, or not limited to building houses in places to which they will move.

2.3 Needs relating to personal lives: increases in live-alone elderly people

- ◆ The number of elderly people who live alone apart from their families is growing. When such people try to use financial services, they often find it difficult to not only obtain necessary certificates from administrative institutions but also to send identifying

information and information on their well-being.

- ◆ The increasing number of live-alone elderly people needs to be able to carry forward the procedures for using financial services indispensable for leading their lives, even if they remain passive to some degree. Such a social need will presumably increase day by day accompanied with the advancement of the aging society. As a social infrastructure responding to it, it can be an option to take advantage of the Social Security and Tax Number System, which the government intends to establish, for such elderly people.

- ◆ Based on these points, some participant institutions will take new actions as follows:

[Future Action V]

Mainly based on discussions in our task force as well as consumers' opinions, The Life Insurance Association of Japan (i) will make a report which distills challenges and introduces excellent actions already taken by member companies with respect to procedures and services for elderly people, especially those living alone, and (ii) will support member companies coming up with new actions.

[Future Action VI]

In order to make it possible for people whose energy is decreasing both physically and psychologically due to the decline of health and life functions, like live-alone elderly people, to use financial services indispensable for leading their lives, relevant financial industry groups and the Financial Services Agency will investigate, as a medium- and long-term agendum, the application potency, on the basis of the premise of customers' contest, of the Social Security and Tax Number System, with reference to the actual conduct of the system as well as public opinion, if it is established.

3 Issue B: Financial Products Responding to the Declining Birthrate and Aging Population

[Major examination objects: people of working age]

3.1 Needs for long-term financial investments

3.1.1 Enhancing the development and distribution of products for long-term financial investments by individuals through regular accumulation of money

- ◆ Looking at the public pension system amid the advancement of the declining birth rate and aging population, it is necessary and important for people of working age, especially younger people, to start building assets early and make financial investments in their own right from the long-term perspective by purchasing small amounts of investment products in a regular and continuous fashion.
- ◆ In this situation, private pension insurance products and some investment trusts are welcome financial products, and the line-up of these products is prepared to some degree. However, such financial products have not been well introduced to young and

middle-aged people, since financial institutions have tended to shed light mainly on retired people as predominant customers in their retail businesses.

- ◆ Regarding private pension insurance products, insurance companies are required to make efforts for increasing their public recognition and to use some ingenuity regarding their details, such as the duration of the period when the pension is paid out and the type of pension paid out; specifically, either fixed or variable.
- ◆ Regarding investment trusts, assuming that customers buy them with small amounts of money in a regular and continuous fashion, it would be beneficial for the customers to be offered investment trusts which charge a small sales fee, invest in financial assets suitable for long-term holding, and pay out dividends in such a way as to let the customers enjoy the effect of compound interest. The attractiveness of investment trusts is expected to be enhanced enough to give these benefits, by developer financial institutions that exercise their ingenuity, and also by distributor financial institutions that realign line-ups of investment trusts on sale, diversify points of contact with customers, and elevate the level of service in each point of contact. The Japanese version of the Individual Savings Account (“NISA,” hereinafter) will benefit individuals who purchase investment trusts developed and offered for sale as such.
- ◆ To develop and offer for sale financial products suitable for long-term investments by individuals paying small amounts of money in a regular and continuous fashion, individual financial institutions need to prepare the capacity designated for that. In this regard, our task force shares the necessity for financial institutions to take such an attitude as to make profits in a long-term and frugal fashion from individual customers by installing in them a feeling of trust through the formation of long-standing relationships with them. Our task force sees an indication that it is important for financial institutions to perform personal evaluation and training contributing towards securing such an attitude.
- ◆ Based on these points, some participant institutions will take new actions as follows:

[Future Action VII]

To increase the attractiveness of investment trusts in the spheres of both product development and distribution so as to meet the needs of working-age people to make financial investments from the long-term perspective by paying small amounts of money in a regular and continuous fashion, the Japan Securities Dealers Association and The Investment Trust Association, Japan, will promote and support new actions taken by member companies. Likewise, The Life Insurance Association of Japan and The General Insurance Association of Japan will support member companies by making efforts to increase public recognition of savings-based insurance products,

such as private pension insurance products, and non-life insurance products of accumulation type with a savings feature, respectively.

[Future Action VIII]

Aiming at a wider use of and more familiarity with the Japanese version of Individual Savings Accounts (or, NISA) amongst individual investors, the Japan Securities Dealers Association will make necessary investigations mainly of how to make the NISA known by the public at a newly created review session, or NISA Promotion Working Group. The Financial Services Agency will propose the establishment of a liaison council in which not only securities firms' community but also other types of relevant financial institutions take part, so as to deal with the necessity for the participants to understand the intent and purpose of the NISA fully and then to exercise PR activities jointly. The Agency intends to continue to encourage the council participants to make public-private collaboration efforts to address future tasks relating to the participants in common.

3.1.2 Raising working-age people's awareness of long-term financial investments through regular accumulation of money

- ◆ Even if financial institutions make some improvements to the development and distribution of financial products suitable for long-term investments by individuals paying small amounts of money in a regular and continuous fashion, people of working age will not actually purchase such products without financial literacy, or the awareness of the necessity of starting to build assets for the future as well as of the importance of saving small amounts of money in a regular and continuous fashion.
- ◆ Financial industry groups and individual financial institutions already provide the public with booklets and other relevant materials summing up fundamental knowledge on economy and finance. It is necessary to expand effective places where people of working age are able to actually acquire such financial literacy. Therefore, it is beneficial for financial institutions to mobilise their own networks.
- ◆ This means that individual financial institutions are expected to actively investigate measures of using their networks, such as utilising existing relationships with companies and several types of organisations, innovating upon the structure of webpages and the method of PR activities, and using new information technologies, including social networks.
- For example, some regional banks, either as the main body's project or through a subsidiary think-tank's activity, provide local companies with moderately-priced training services for their new recruits. It would be reasonable for such regional banks to consider adding to the curriculum a class on fundamental knowledge of economy and finance, including the necessity and importance of accumulating money in a regular and

continuous fashion, as basic knowledge and skills of a member of society. In response to discussions in our task force, The Ogaki Kyoritsu Bank will change the curriculum of *Training Workshop for New Recruits* in spring 2014, which the bank has implemented for local companies. Likewise, the Hirogin Research Institute undertakes a process to revise the curriculum of *Induction Course for New Recruits*, which the institute has implemented for local companies.

- Amongst regional banks are many banks which establish positive relationships with local offices of The Japan Chamber of Commerce and Industry. These offices are eligible to receive the free education service of financial literacy, or *The Lecture on Call Program*, which is conducted by the Japan Bankers Association. Regional banks are expected to explore the feasibility and ways of utilising the program for local offices of The Japan Chamber of Commerce and Industry that usually provide member local companies with lecture classes and seminars.

- ◆ Regarding pensions, the number of companies adopting the defined contribution pension system (“DC system,” hereinafter) is increasing. As individual participants are responsible for their own asset allocations, the allocation for deposits and savings in the DC system is considerably larger than that in the defined benefit corporate pension system.^[Note 1] In the background to this should be DC system participants’ lack of investment knowledge and experience as well as lack of interest in their own pensions. Therefore, it is important to encourage DC system participants to make their own plans by putting in perspective the timing of retirement and their desired post-retirement lifestyle, and to approach their own pension investments on the basis of their life plans. To achieve this, it is desirable for financial institutions serving as operational management institutions in the DC system to strengthen their cooperation with business owners who are using the DC system and are in charge of providing their participating employees with appropriate educations on financial investments. One example concerns existing educational materials, such as booklets and DVDs, which operational management institutions already create for the DC system participants. Beyond just delivering them physically to the participants, it is desirable for the participants to use the materials effectively as aids to better understanding in learning opportunities, such as a seminar, which operational management institutions should hold by eliciting cooperation from their business owners and labour associations.

[Note 1] The allocation for deposits and savings accounts for approximately 40% of the total in the DC system, and that for domestic bonds accounts for approximately 5%. By contrast, the allocation for short notice money accounts for approximately 5% of the total in the defined benefit corporate pension system in which professional fund managers are engaged in portfolio selections, and that for domestic bonds accounts for approximately 30%.

- ◆ Based on these points, the Japan Defined Contribution Pension Plan Administrators

Association will take new actions as follows.

[Future Action IX]

The Japan Defined Contribution Pension Plan Administrators Association will contribute towards creating an environment in which DC system participants are encouraged to enhance interest in their own pensions. To be specific, the Association will encourage business owners who are using the DC system and are responsible for providing necessary education to their participating employees to conduct successive and effective education not only when they first introduce the DC system but also afterward. In addition, the Association will propose the application of the matching contribution system for business owners whose employees participating in the DC system are allowed to contribute their own money.

3.2 Needs for new financial products and services

3.2.1 Working women and financial services

- ◆ There is an increasing number of women who play active roles both personally and professionally; that is, women personally care for their children whilst staying at work after marriage and childbirth. Such women (“Working Mothers,” hereinafter) are people valuable in that they will counteract the pressure generated by the declining birth rate and aging population of reducing the population of labour power, and thereby may contribute towards maintaining and developing the national economy. In addition, the declining birth rate could be stopped in a situation where Working Mothers are willing to try to have a second or third child as they find it convenient to lead their daily lives and continue working.
- ◆ Working Mothers are very busy, struggling to run household affairs, childcare, and their jobs. In such a situation, they generate several needs for financial products and services. Generally speaking, two-income families have high interest in asset management because they have plenty of income; especially, it can be viewed that Working Mothers with full-time jobs in their thirties or forties have potentially large needs for asset management. They often visit webpages of financial institutions as convenient sources of information, and seek clear information so as long as they are too busy to compare financial products with each other or make relevant studies.
- ◆ Several needs of Working Mothers seem to be prominent once concrete purposes and clear stories are expressed. Webpages of financial institutions usually have such a structure as to guide visitors to line-ups and detailed item descriptions mainly by product type. In this regard, there is room for improvement in terms of appeal and user-friendliness for Working Mothers.
- ◆ Moreover, when busy Working Mothers visit retail premises of financial institutions, they

will be discouraged from visiting again if they are kept waiting and provided explanations that are difficult to understand. In addition to the above-mentioned concrete purposes and clear stories, they require short waiting times and a light-hearted atmosphere. Meanwhile, many financial institutions hold seminars on holidays for customers including Working Mothers, and their popularity can be varied significantly by PR methods on webpages.

- ◆ Based on these points, our task force recognises it as an agenda to contrive ways to present and show existing financial products and services from the perspective of women, rather than to expand line-ups of products and services specifically for Working Mothers. In contriving such ways, our task force recognises it beneficial for financial institutions to not only make the most of female employees but also to seek advice from experts and Working Mothers outside the companies.

3.2.2 The wealthy class and financial services

- ◆ The wealthy are required to play more active roles as a risk-taking provider of funds inducing economic growth.
 - According to *NRI Questionnaire Survey on the Wealthy* published by the Nomura Research Institute in November 2012, the number of rich households with financial net worth of one to five hundred million yen is 760,000, and the number of super-rich households with financial net worth of five hundred million yen or more is 50,000. The sum of both groups' financial net worth is 188 trillion yen (rich households: 144 trillion yen, super-rich households: 44 trillion yen) and accounts for slightly more than 15% of total financial net worth possessed by Japanese households.
 - According to the same research, deposits and savings (including Money Reserve Funds) account for 45% and 40% of the total financial net worth of rich and super-rich households, respectively, as of February to March, 2012. The asset allocation for deposits and savings by the Japanese wealthy seems to be considerably larger than that by the wealthy in foreign countries.^[Note 2]

[Note 2] Looking at *Financial Advisor Survey* published by Capgemini/Merrill Lynch Global Asset Management for international comparisons, deposits and savings account for 29% of total financial assets of the Japanese wealthy. The point of time for survey and the definition of the wealthy are different from Nomura Research Institute's survey mentioned above. The asset allocation of 29% is by far the highest in the Asia and Pacific area (Australia: 18%, South Korea: 10%, Taiwan: 17%). The wealthy are called high net-worth individuals in the survey, who are defined as those having investable assets of US\$ one million or more, excluding primary residence, collectibles, consumable, and consumer durables.

- ◆ The pattern of behaviour and preferences of the wealthy need to be considered in order to encourage them to purchase risk assets, including venture investments.

- Most of the recent wealthy make a fortune in their lifetime. As for characteristics of their pattern of behaviour, it can be pointed out that they are busy in spite of possessing great wealth because they work hard for their businesses and social contribution activities, and that they tend to avoid lavish consumption and showing-off.
 - As for their preferences, the middle-aged wealthy prefer expanding their businesses and starting new businesses to making profits by financial investments. The elderly wealthy have an interest in inheritance.
 - At the same time, both middle-aged and elderly wealthy are keen to work on social contribution activities, such as supporting and growing young entrepreneurs, revitalising their home towns and communities, and supporting the reconstruction of devastated areas. Nevertheless, it is pointed out that such keenness of the wealthy is not well accommodated because the wealthy, especially those living in provincial areas, find few opportunities and investment projects.
- ◆ As suggested by the pattern of behaviour and preferences of the recent wealthy, it should be likely that financial institutions cannot well attract the wealthy just by offering rich customers their ready-made financial products, such as investment trusts, no matter how hard sales people work to provide the customers with item descriptions, except for products relating to tax and inheritance. It would be necessary for financial institutions to propose investment outlets and projects which rich customers find interesting in relation to their own economic and social activities, with such a sales technique as to provide the customers with information beneficial for the activities.
 - ◆ Based on these points, our task force recognises the importance for financial institutions to (i) systematically combine human resources and information accumulated in in-house departments and intra-group subsidiaries, such as corporate sales department, research department, and corporate venture capital, and to (ii) mobilise the combined human resources and information in sales and marketing activities for the wealthy.

4 Concluding Remarks : Driving for Considerate Financial Industry

- ◆ Structural changes of domestic socio-economy, mainly the full-scale process of the declining birthrate and aging population, increase the diversity of retail customers in generations of both retired and working-age people. The Japanese financial industry needs to accommodate their diversified needs as well as create new needs by discovering their potential wants. In making such attempts, the Japanese financial industry is at the forefront, and this means that know-how to be gained through that are expected to be applicable for foreign retail businesses in the future.
- ◆ In our task force, some task force members and outside experts make presentations

suggesting that there should be low social recognition and trust in financial institutions as a place for individual customers to consult about asset management, and that there should be gaps between what the customers expect and what financial institutions have actually done, from the perspectives of several types of customers, including the young, the elderly, Working Mothers, and the wealthy. This can be said of wide-ranging spheres of retail businesses, including the setting of financial products and services as well as the making of webpages.

- ◆ As a result, a number of insights come to task force members, and major ones are as follows. Firstly, the task force members recognise that the Japanese financial industry as a whole does not give minute responses fully to individual customers whose diversity is increasing, and that financial institutions' existing responses probably look off-the-shelf to the customers. Secondly, the task force members get a fresh reminder of the important basic action to stay present long with each of customers by thinking about things from customers' viewpoints. Thirdly, the task force members find it important to take such an outgoing attitude as to think about things by listening to customers' voices as well as outside experts' opinions. Lastly, the task force members find it necessary for financial institutions to prepare themselves a scene contributing towards elevating customer loyalty, somewhere in the long-standing relationships with the customers. These insights are expected to develop, in the days ahead, into the managerial philosophy underlying financial institutions' myriad strategies of retail businesses.

- ◆ Standing on such a managerial philosophy, sales channels, including physical retail premises and virtual webpages, will gain new definitions in financial retail businesses. For financial institutions, a sales channel will mean a place where they are able to acquire social recognition and customers' trust in them as well as a mine of information beneficial for product developments. For retail customers, a sales channel will be never an automatic vending machine, and it will mean a place where the customers call in only to neither operate machines, such as automated teller machines, nor to fill out paperwork. For the customers, a sales channel will be a consultation office where they visit with a sense of trust, and a learning forum where they are able to grow as a consumer and an investor. When individual customers leave such a new sales channel, they will embrace something delights.

- ◆ What is needed for the enhancement of financial services in the aging society is the attitude of thinking about things for facing individual customers from their viewpoints, and the willingness to exercise originality and ingenuity to please the customers. Exactly, this can be termed *Omoiyari* in Japanese, or "considerateness." People living in the society of the declining birthrate and aging population will be guided to a brighter future by making relationships with a considerate financial industry. In a

socio-economy with such considerate financial institutions acting as a guide, efficient and various markets of financial products and services will emerge, mismatches between demand for and supply of financial products and services being eliminated. Moreover, the advancement of “from savings to investment” will promote more favourable allocations of economic resources both at home and overseas, thereby contributing towards revitalising the national economy and expanding gross national income. Meanwhile, individual customers feel a strong sense of trust and familiarity in financial institutions. This will be the platform for workers in the financial industry to not only make profits but also to feel job satisfaction. It is wished to break such a new ground.