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Report of Study Group on
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Report of Study Group on Financial Education

1. Introduction

Since the latest financial crisis, the importance of financial literacy¹ and the improvement of consumers' financial activities have been increasingly recognized and discussed in international fora such as the OECD and G20.² It is thus becoming increasingly important to enhance the financial literacy of Japanese consumers. Further promotion of financial education is considered essential.

Therefore, the FSA decided to review the status of Japan's financial education and consider the future course. In November 2012, the FSA established the Study Group on Financial Education within the Financial Research Center, involving experts, related ministries/governmental offices and other organizations. The study group had seven meetings up to April 2013. This report shows the future course of action for financial education based on the discussions that behavioral aspects should be emphasized and that a common minimum level of financial literacy should be clarified and shared among related parties.

2. Significance/Purpose of Financial Education

(1) Financial literacy as a life skill

No one in modern society can avoid involvement with financial matters, using various types of financial products such as savings/asset management, housing loans, insurance products, and so forth, depending on their life stages.

¹ The definition of the term "financial literacy" in this report is the same as the OECD/International Network on Financial Education (INFE) definition in the report "High-Level Principles on National Strategies for Financial Education (June 2012)": a combination of financial awareness, knowledge, skills, attitude, and behavior necessary to make sound financial decisions and ultimately achieve individual financial well-being. In addition, according to the OECD, the same concept applies to the term "financial capability" used in the U.S. and the U.K.

² According to OECD/INFE's report "the High-Level Principles on National Strategies for Financial Education," for the promotion of financial education, the establishment of coordinated and tailored strategies at the national level has been widely considered to be one of the best means to achieve these efficiency goals while avoiding duplication of resources and efforts. Further, the June 2012 G20 Los Cabos Summit Communiqué stated the following: "On financial education, we endorse the OECD/International Network on Financial Education (INFE) High Level Principles on National Strategies for Financial Education, and call on the OECD/INFE and the World Bank in cooperation with the GPF to deliver further tools to promote financial education, with a progress report to the next Summit."

In light of this, Japan is faced with various problems, such as the issue of multiple debts and the growing number of households with no financial assets.³ In order to become financially independent as a full-fledged member of society and improve the quality of life, it is becoming increasingly important to acquire knowledge and judgment skills to properly select and use financial products in accordance with one's life plan, while achieving a family budget management that will prevent unplanned expenditure and improve the income-expense balance. It is also important to form a habit of life planning for unexpected events such as death, illness and, accidental fires, as well as for education, house purchases, and retirement.

Enhancement of the above-mentioned habit, knowledge and judgment skills (i.e. financial literacy as a life skill) will likely result in better understanding of the characteristics of various financial products such as risk/return aspects. It is also expected to develop an asset management approach that will lead to regular savings and stable accumulation of wealth, while appropriately purchasing insurance and borrowing when necessary.

(2) Financial literacy to encourage the provision of sound, high-quality financial products

Recent de-regulation, etc. has enabled financial institutions to offer a wider range of financial products, the structure/risks related to which have become increasingly complex, and which, from the users' point of view, are often difficult to understand accurately. There are various regulations in place, including the requirement for financial institutions to provide easy-to-understand explanations in line with each individual's knowledge/experience level and the details of assets owned ("suitability requirements"). However, effective user protection cannot be achieved only through regulations by authorities. In addition, excessive regulations will hinder innovative activities. Hence, it is also important to improve the financial literacy and behavior of individuals to supplement the government's regulations.

Further, the study group notes that the ability of users of financial services to select financial products will play an important role in improving the quality of products. Japan maintains solid quality of products/services, particularly in the

³ Based on the Central Council of Financial Services Information's "Survey of Household Finances" in 2012, households (households with two or more family members) without financial assets amounted to 26% of the total number of households.

areas of automobiles and consumer electronics, on the back of the high level of demands for qualities by consumers, constantly pushing product and service providers for better commodities. In the financial industry, better financial products should become prevalent along with the improvement in users' financial literacy and strengthened ability to select appropriate products.

(3) Financial literacy encouraging the effective use of household financial assets in Japan

In theory, diversification of investment products and the timing of investments should provide stable returns over the mid- to long-term period. However, more than 50% of Japan's household financial assets, a total of approximately 1,500 trillion yen, are managed as cash and savings. This not only reflects the economic environment with continuous deflation in the past, but a lack of understanding regarding the benefits of diversified long-term investments.

However, even under the deflationary trend, it is possible to generate solid and stable returns by diversifying investments in both domestic and overseas stocks and bonds, and through appropriate timing of such investments.⁴ In addition, solid and stable returns can be generated by the diversified and long-term investments of household financial asset, which, in addition, will become a source of financing for growing sectors, and ultimately contribute to the growth of Japan's national economy.⁵

In summary, the significance and purpose of financial education are as follows: to enable each Japanese national to achieve financial independency and lead a better life; and to contribute to the realization of a fair and sustainable society by encouraging financial institutions to offer good quality financial products, and by the effective use of household financial assets,⁶ through the improvement of financial literacy.

⁴ Refer to reference material 2: "Significances of global diversification of investment" from the first meeting of "Study Group on Financial Education."

⁵ The promotion of financial education is incorporated in the "emergency economic measures (cabinet decision of January 11, 2013)."

⁶ This concept is based on the following views addressed in the "Act on Promotion of Consumer Education (August 2012)"

- Help prevent damage; at the same time help individuals to obtain the capability to act independently and rationally in order to protect or increase their own interests;
- To help individuals to recognize that their actions can impact current and future generations and social and economic conditions both in Japan and overseas, and to participate in the formation of a fair and sustainable society (consumer-oriented civil society).

3. Current Status of Japan's Financial Education

In the Finance System Council's June 2000 report, "New Framework for Finance to Facilitate 21st Century," financial education was set as one of the key initiatives in discussions on the new framework in relation to the rules for financial services.

Thereafter, the FSA established the Financial Education Discussion Group in March 2005, prior to the lifting of the full deposit protection system. In June 2005, the working group issued its report, "Agenda for Finance and Economics Education." The report indicated seven initiatives for immediate execution, including the effective use of "Counseling Offices for Financial Services Users" and the FSA-led symposium, which are now being implemented.⁷

Considering the above background, various initiatives and programs are being implemented separately by related authorities, including the FSA, the Central Council for Financial Services Information ("Central Council"⁸), local councils for financial services information, schools, local governments, financial industry groups, financial institutions, and NPOs, etc.⁹

(1) Current status of financial education by the Central Council for Financial Services Information

The Central Council for Savings Promotion was launched in 1952, and its name was changed to the Central Council for Financial Services Information in 2001. The Central Council has been promoting financial education by utilizing a network encompassing a wide range of industries and in cooperation with local councils and other related organizations.

The Central Council is implementing various initiatives to promote financial education for students, working population, and senior citizens. For example:

⁷ Regarding the progress of the implementation of the seven items, refer to reference material 1 from the 6th meeting of "Study Group on Financial Education."

⁸ The Central Council is an organization consisting of the representatives of financial and economic organizations, the media, consumer groups, etc., experts, and the deputy governor of the Bank of Japan, with the director-generals of related authorities, including the FSA, and the executive director of the Bank of Japan taking part as advisers (Secretariat: Public Relations Department, Bank of Japan).

⁹ For detailed information, refer to reference material 2 from the 6th meeting of "Study Group on Financial Education."

- To promote financial education effectively in schools, in cooperation with teachers, experts, and the government, the Central Council developed the “Financial Education Program” ,¹⁰ which outlines a model for financial education at elementary, junior high, and high school levels, providing sample teaching plans.
- Further, in September 2012, the Central Council published the results of the “Financial Literacy Survey”,¹¹ implemented to measure the nation’s financial literacy, surveying attitudes and behavior towards finance, as well as financial knowledge.

(2) Current status of financial education for students

Financial education at school level is provided through social studies, civics, and home economics.

The Basic Education Act (1947) saw a full-scale revision in 2006. The revised act stipulated the objectives of education, including to foster a spirit of autonomy and independence; to emphasize connections to career and practical life; and to develop a mindset of active contribution to the building and development of society, etc.

Based on this, the government’s course guidelines (the “guidelines”) for elementary/junior high schools (2008) and high schools (2009) were revised, under which the contents of financial education were strengthened, despite the limited teaching hours. The initiatives under the new guidelines were then implemented at elementary, junior high, and high schools in 2011, 2012, and 2013, respectively.

When looking at educational contents by subject in the revised guidelines, the requirement of guidelines for social studies and civics include education covering the structure of a stock company, the structure and functions of direct/indirect finance, etc., de-regulation/globalization of finance, and changes in the environment in relation to finance.

¹⁰ Refer to reference material 1 from the 5th meeting of “Study Group on Financial Education” for detailed information as to educational contents by age groups under “the Financial Education Program” .

¹¹ The Survey was conducted on 10,000 individuals of 18 years of age or older to measure the level of their knowledge and behavior in relation to money and finance. Data received from 3,531 individuals was compiled and analyzed.

The guidelines for home economics were revised to include “life planning throughout one’s life,” with the new textbook outlining the importance of selecting financial products for the purpose of managing, not just saving. The textbook also gives guidance stating that asset management involves risks and that hence, it is necessary to diversify investment products based on the purpose and period of the investment under consideration.

Other than the above, financial education is implemented in integrated studies classes at elementary, junior high, and high schools, in conjunction with activities at schools by financial industry groups and corporate social responsibility (CSR) activities by financial institutions.

(3) Current status of financial education for the working population and senior citizens

① Efforts of financial industry groups and each financial institution, etc.

Financial industry groups, such as the Japanese Bankers Association, Japan Securities Dealers Association, the Investment Trusts Association Japan, Japan Institute of Life Insurance, and the General Insurance Association of Japan are offering a variety of opportunities for financial education. These include explanations regarding individual financial products (e.g. deposits, stocks, investment trusts and insurance) and their social meanings; seminars/visiting lectures on asset management and for improvement of investment knowledge; and events to enhance awareness of investment/asset management. Each financial institution also offers opportunities such as seminars and visiting lectures.

Further, the Japan Association of Financial Planners offers a variety of learning opportunities including the “Personal Finance Education Standard”,¹² which summarizes necessary knowledge/skills by category, including savings/investments for students and working population/senior citizens, seminars related to family budget management, and life planning.

¹² Refer to reference material 2 from the 5th meeting of “Study Group on Financial Education.”

- ② Efforts of local governments (Consumer Affairs Centers, Community Centers, etc.)

Consumer affairs centers are administrative agencies established in prefectures and municipalities to provide consumer affairs consultations, consumer education, and consumer information services. Activities of these centers are focused on alerting consumers on multiple debt problems and on enhancing consumer awareness in order to prevent suffering damage caused by fraudulent sales or other crimes.

In addition, community centers, established to promote activities related to education, science, and culture in line with people's lives, offer lectures related to financial education, such as finance, insurance, tax, and consumer affairs. The available number of finance-related lectures/participants remains small, however, when compared to those taking other courses, such as child-care, nursing children, upbringing, cooking, food, and diet.¹³

- ③ Investment education for participants of a defined contribution plan

Whereas employees implement the corporate-type Defined Contribution Plan ("DC"), the subscribers of the plan (employees) give instructions on managing assets and bear the performance risk of the assets included in the plan. Hence, the Defined Contribution Pension Law requires employers to strive to provide subscribers with investment education.¹⁴ In reality, such investment education is mostly provided by plan administrators appointed by the employers,¹⁵ and they are required as a duty to offer re-training opportunities and continuing education to promote interests in the DC system, as well as the training upon

¹³ According to survey by the Ministry of Education, Culture, Sports, Science and Technology (MEXT) on Social education activities, 20,858 lectures related to child-care, nursing children and upbringing were held with 800,564 participants, 19,730 lectures related to cooking, food and diet with 430,092 participants, while 271 lectures related to finance, insurance and tax were held with 9,161 participants, and 418 lectures related to consumer affairs with 33,008 participants in 2008.

¹⁴ Article 22, paragraph 1 of the Defined Contribution Pension Law stipulates that "Employers must endeavor to present fundamental materials regarding asset investment, and take other necessary measures that will be useful for those corporate pension plan subscribers, etc. of the corporate pension plan in effect to carry out the investment instructions as in paragraph 1 of Article 25.

¹⁵ Plan administrators, mainly financial institutions, are specialized organizations that undertake the administration of a defined contribution plan. Their tasks include presentation of methods for asset management to plan participants, provision of information necessary to select a method of asset management, and management of participants' attributes and performance (account management)

implementation of the plan.¹⁶ In addition, for individual-type DC, the National Pension Fund Association is required to strive to provide investment education.

④ Efforts of citizen's groups

In addition to the above, there are a range of groups, such as citizen's groups, in various locations. These organizations, under the initiatives of homemakers and ex-bankers, are independently offering opportunities to learn matters of interest, such as the structure of financial products and approaches to life planning.

4. Future Direction of Financial Education

(1) Level of financial literacy to be achieved

① Emphasis on behavioral aspects

As mentioned above, there is a wide range of educational activities encompassing the different phases of life, such as students, working adults, and senior citizens. However, financial education in Japan tends to emphasize the acquisition of financial and economic knowledge. On the other hand, in addition to the acquisition of knowledge, the OECD and foreign countries, including the U.S. and the U.K., have recently started focusing on behavioral improvements, such as healthy family budget management and utilization of life planning; and skills to select appropriate financial products.

[Overseas trends in financial education]

(a) OECD

According to the report by the OECD/International Network on Financial Education (OECD/INFE)'s , "High-Level Principles on National Strategies for Financial Education," not only governmental regulations, but also each individual's appropriate behavior is essential for the continuous and robust development of a financial system. As such, the financial literacy in this

¹⁶ In August 2011, the law concerning providing support to secure income for the elderly through national and corporate pension funds made clear the continuous implementation of investment education. Article 22, paragraph 2 of the Defined Contribution Pension Law stipulates that employers, when taking necessary measures to be useful for those corporate pension plan subscribers, should consider executing such measures with continuity, improving subscribers' level of knowledge as per asset management, thereby enabling subscribers to use such opportunities effectively.

report is defined to include the attitude and behavior necessary to make sound financial decisions, as well as financial knowledge and skills (refer to footnote 1).

(b) U.K.

In March 2006, the Financial Services Authority (UK FSA)¹⁷ implemented a survey called “The Level of Financial Capability in the U.K.”¹⁸. This survey pointed out that the problems that arise in relation to financial transactions are often caused by a lack of capability in family budget management and long-term life planning, and listed the following four essential components of financial literacy:

- Family budget management (importance of making ends meet and record-keeping)
- Long-term life planning (secure funds for contingency; importance to plan ahead to secure mid- to long-term funds for education and retirement)
- Financial knowledge (importance of knowledge acquisition, such as interest rates (simple or compound), diversified investing, inflation and deflation)
- Selection of appropriate financial products (capability to select appropriate products such as insurance, loans, investment products)

(c) U.S.

The executive order as of January 29, 2010, issued in relation to “The President’s Advisory Council on Financial Capability”¹⁹ pointed out the importance of having access to help,²⁰ besides knowledge and skills, stating,

¹⁷ The financial supervisory authority which was established in 1997 as a result of consolidating various financial regulatory authorities.

¹⁸ Conducted on 5,300 individuals of 18 years of age or older.

¹⁹ In 2008, the George W. Bush administration established the “President’s Advisory Council on Financial Literacy,” which changed its name to the “President’s Advisory Council on Financial Capability” in January 2010 under the Obama administration. The Council, tasked with suggesting policies related to financial capability, was composed of governmental officials, people with relevant knowledge and experience, and representatives of industrial groups and NPOs.

²⁰ Given the financial sector’s highly specialized and complex nature, it is not appropriate to assume all individuals can take proper financial actions based solely on their own judgment even after receiving sufficient financial education in advance. As such, the capability to seek access to advice/information is considered one of the material factors for financial literacy. For the same reason, preventive advice is recognized as important in the U.K. in recent years (refer to (3)② (d)).

“Financial capability is the capacity, based on knowledge, skills, and access, to manage financial resources effectively. Financial capability empowers individuals to make informed choices, avoid pitfalls, know where to go for advice, and take other actions to improve their present and long-term financial well-being.”

As mentioned in section 2 (1), obtaining financial literacy as a life skill is one of the purposes of financial education in Japan, and it is important, along with the knowledge acquisition, to foster the ability to develop a long-term life plan and make a habit of it in order to manage family budgets and secure funds for the future; to learn focus points regarding knowledge and behavior required in properly selecting financial products (insurance, loans, and wealth-building products); and to understand the necessity of asking for third-party advice²¹ in advance.

Further, according to the “Financial Literacy Survey” (September 2012) conducted by the Central Council, a considerable number of people responded that they lacked funding for the future and that in the process of arranging borrowing and managing funds, they did not make comparisons among financial institutions and financial products. Financial education focusing on behavioral aspects seems essential.

② Focus on the minimum level of financial literacy that should be attained

As mentioned above, there are various educational activities made available by many entities. However, the opportunities/time that can be used for financial education are quite limited for all stages of the lifecycle—students, working adults, and senior citizens. Therefore, in order to efficiently and effectively promote financial education, the study group should first focus on achieving the minimum level of financial literacy, along with the enhancement of the promotion organizations(to be discussed in (4) ① in this section).

Obviously, this is not to say that all entities should provide uniform financial education. However, for the efficient and effective promotion of financial education, the study group considers it meaningful to summarize the minimum

²¹ The term “advice” implies not only consultation on general matters, including life planning but also confirmation of the risks related to individual financial products, consultations in search of solutions for problems arising in relation to financial transactions, and counseling to overcome the habit of overspending.

level of financial literacy that should be attained, and shared it among related parties, and implement educational activities focusing on such minimum requirements.

Family budget management and life planning are the key drivers for achieving financial independence as a full-fledged member of society and for leading a better life. In addition, in order to utilize financial products, it is important to acquire the basic knowledge necessary to execute transactions and appropriately select financial products, taking into consideration existing financial and economic trends. Further, it is also important to understand the key basic points for each product category, such as insurance, loans, credit, and wealth-building products. Finally, it is essential to understand the necessity of obtaining third-party advice without having to rely completely on one's own judgment.

In sum, the minimum level of financial literacy covers 15 items in the following four categories: (a) family budget management; (b) life planning; (c) financial knowledge, understanding of financial/economic circumstances, and selection/use of appropriate financial products; (d) appropriate use of outside expertise.

(a) Family budget management

Item 1: Making a habit of proper income/expenditure management (eliminating debts and staying in the black)

The first step to understand the economic basis in order for each individual to achieve their life plan is to make a habit of appropriate income/expenditure management, incorporate an accurate understanding of the status of income and expenditure, have control over unplanned expenditure, and make efforts to improve the income/expenditure balance. Proper income/expenditure management is the starting point for achieving financial literacy.

(b) Life planning

Item 2: Articulating life plans and understanding the need to secure the funds required for life plans
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The lifestyle under the lifetime employment system, ranging from employment, marriage, childbirth, and house purchase through to retirement, has been

generally accepted as a standard value. However, values have become more diverse, and in order for each individual to achieve their goals for the future, it is necessary to develop a life plan and identify several life stages alongside this plan.

Also, based on such a life plan, it is necessary to develop an attitude to systematically borrow money for education/housing purchase, save money and manage assets by planning ahead and identifying the amount necessary for education, housing purchase and retirement, as well as taking on purchase insurance products and make savings for contingency purposes.

Further, for the appropriate selection of financial products, it is essential to categorize owned assets into three types based on the timing, purpose, and the necessary amount: “funds available any time”; “funds to be accumulated for the purposes of education and the purchase of housing, etc.”; and “funds for long-term investment.” and to choose financial products suitable for the characteristics of such funds.

(c) Understanding of financial knowledge and financial/economic circumstances, and selection/use of appropriate financial products

[Knowledge of the basics of financial transactions²²]

Item 3: Making a habit of assuming a fundamentally careful attitude toward contracts
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One of the main causes of problems concerning financial transactions in Japan is executing a transaction (contract) as recommended without fully understanding the details of the transaction, and not noticing the deterioration in performance/environment surrounding the financial products after the transaction because of leaving the monitoring to the seller.

In purchasing financial products, it is essential to make a habit of confirming the details of contracts,²³ not making a purchase if one is unable to fully understand the contract, and periodically reviewing the circumstances surrounding the purchased financial products (review of annual transaction

²² The three items listed are important issues that have been incorporated in consumer education to date. Going forward, financial education should also include these as important issues.

²³ It is also important to confirm in the contract whether cancellation is possible and if penalty fees are applicable upon cancellation.

report, etc.). These are essential skills to survive in the modern contract-oriented society—and not merely the financial sector.

Item 4: Making a habit of confirming the reliability of information sources and contract counterparties

The financial sector, due to its specialization and complexity, tends to become a place for fraudulent activities by persons with malicious intent. Assuming that a certain number of such persons exist in the industry, it is important to check prior to the execution of a contract the creditability of the information provider and the counterparty to the financial transaction. Whether such counterparty is at least registered with the FSA or other self-regulatory organizations can be confirmed by checking the websites, etc. of the FSA and other self-regulatory organizations.

Item 5 Understanding that Internet transactions are convenient but require some precautions different than in the case of face-to-face transactions

The volume of transactions conducted through the Internet has dramatically increased in recent years, and transactions have become more convenient in the financial industry. On the other hand, it is important to be aware that the risks are different than in the case of face-to-face transactions, such as being unaware of a stolen pin numbers and the placement of erroneous orders. Users should be careful not to use devices that are not secure when undertaking financial transactions.

[Common to all categories of finance]

Item 6: Understanding the key concepts constituting the foundations of financial education (interest [simple interest and compound interest], inflation, deflation, exchange rates, risk-return, etc.), and the selection/use of financial products suited to financial and economic circumstances

In order to select and use appropriate financial products, it is necessary to fully understand the key concepts, such as interest (simple and compound),²⁴ inflation, deflation, exchange rates, and risk-return factors. In particular, the meaning of the term “risk” varies depending on the stages of selecting and

²⁴ According to the Central Council’s “Financial Literacy Survey (September 2012),” only 30% could answer the compound interest question correctly, while 80% of respondents answered the simple interest question correctly.

using financial products. The ability to distinguish such meanings is essential.²⁵ When selecting financial products to use, it is also important to have an adequate understanding of current financial and economic conditions, including inflation, deflation, and the trends in interest rates, exchange rates, and the stock market.²⁶

Item 7: Understanding the importance of ascertaining the actual cost (price) of a transaction

When selecting financial products to use, it is important to identify the actual cost (price) of a transaction. For example, in the case of obtaining a housing loan, the premium paid for the credit life insurance attached to the loan agreement should be added to the overall cost (price). In addition, in terms of investing in wealth-building products, considering the average household's allowable risk, the long-term and stable return from these products is expected to be only a few percent and any fees and commission associated with the transaction will have a significant impact on the household's returns. Thus, users should be aware of the level of fees and commissions in selecting these products.

[Insurance products]

Item 8: Understanding which contingencies (death, illness, fire, etc.) one should seek insurance coverage for

Before purchasing insurance products, it is essential to consider well what risks require insurance coverage (potential loss and danger associated with death,

²⁵ The term "risk" in the field of asset management generally refers to "the degree of uncertainty concerning returns (i.e., return on investment obtained by dividing the total income generated by holding financial assets for a certain period by the amount of principal (loss on investment if negative)." For example, assuming a JPY1 million investment ascertain financial product, between the cases below, the first one is regarded as "riskier" than the latter:

- There is a possibility of gaining JPY200k, thereby the value of the investment will increase to JPY1.2 million in one year or decline to JPY800k (loss of JPY200k); and
- The maximum gain is capped at JPY10k (value of the product is capped at JPY1.01 million), but the possibility of loss is limited and it is guaranteed that the value of the product will not go below JPY990k.

On the other hand, in the field of insurance, the term "risk" means potential loss and danger due to death, illness, fire, etc. Further, in everyday life, the term "risk" is used in negative sense, referring to the potential loss and danger as in insurance, which can make it difficult to understand the meaning of "risk" in asset management.

²⁶ For example, in the case of loan products, if a variable interest rate is chosen, the burden of interest payment is expected to increase with the upward trend of interest rate, while in the case of fixed rate, the initial rate is set at a level higher than the variable rate. As such, it is also necessary to understand the financial and economic conditions.

illness, fire, earthquake, nursing, etc.).

Item 9: Understanding the amount of economic security required should a covered contingency occur

When selecting to use insurance products in preparation for the materialization of risks, it is necessary to determine the appropriate amount to be insured, taking into consideration other sources of funds that can be applied, such as social welfare, employee benefit, and other savings.

[Loans/credit]

Item 10: Understanding basic precautions when arranging a home loan

- ① Importance of setting a reasonable loan limit and putting together a repayment plan
- ② Importance of preparing for the possibility of circumstances that could make repayment difficult

The total amount of a housing loan normally exceeds the household's annual income. Therefore, it is necessary to fully understand the importance of developing a repayment plan with a loan amount and repayment period that are reasonable and in line with one's repayment ability.

Additionally, the repayment period of most housing loans is long, ranging from 10 to 35 years. It is important to have a backup plan in place (selection of an interest rate in line with economic conditions, achievable repayment plan, etc.) in case of material events, such as increased interest payments due to changes in financial and economic environment and the deterioration in repayment ability due to reduced household income caused by unemployment, etc.

Item 11: Making a habit of avoiding thoughtless/reckless use of credit cards and credit card loans

Consumer finance (e.g., card loans, etc.) and credit card products enable to purchase products/services without cash. While these products are highly convenient, users should be cautious in using them, considering the risks of excessive use and the interest-bearing nature of card loans, etc.

Additionally, if repayments for loans and credit purchase are not satisfied as specified in the contract, it will be recorded by the relevant credit bureaus, which could make it difficult to borrow in the future—not only from the provider of the subject loans or credit but also from other financial institutions and lending institutions. Users of these products should be aware of the seriousness of the outcome from such a situation.

[Wealth-building products]

Item 12: Understanding that seeking higher returns will entail assuming higher risks, although risk tolerance varies from person to person

In general, risks and returns are in a trade-off relationship. Thus, it is important to understand that higher returns come with higher risks, which enables us to be skeptical of an explanation such as, “100% certain to generate such returns” or “there is no loss from this product,” when looking at products expected to generate relatively high returns.

On the other hand, users should be aware that there is no return if users try to avoid every possible risk. Knowing the risk-return trade-off is the starting point of understanding the target returns and risks in pursuing the stable accumulation of assets for the future.

Item 13: Understanding the effectiveness of diversification in wealth building (diversifying investment assets and investment start times)

While each financial product has its own risk (i.e. degree of uncertainty to generate returns), the reduction of risk and generation of stable returns are possible by diversifying investments in multiple financial products with different degrees of risk. This is the primary concept to keep in mind in pursuit of wealth building.

Additionally, the diversification of investment is divided into “diversification of investment products,” where investments are diversified into both domestic and foreign stocks/bonds; “diversification of currency,” where investments are made in currencies other than Japanese yen, such as the U.S. dollar; and “diversification of timing,” where investments are made gradually over time, not in a lump sum.

Further, even when investing in the same stocks or investment trusts, diversification of timing can be achieved if invested periodically at a fixed amount over the long-term, thereby normalizing the purchase price and avoiding purchases at the highest price. Good candidates in this category include “installment type” wealth-building products.

In relation to the above, some members addressed a view that the Japanese version of Individual Saving Accounts (ISAs)²⁷ to be introduced in January 2014 should be utilized as an incentive for installment type wealth-building.

Item 14: Understanding the effectiveness of long-term investments in building wealth

Compound interest is an effective way to accumulate wealth, reinvesting the interest and dividends for the current period into the next period and thereby yielding interest on the amount of interest and dividends for the current period in the next period.

In addition, long-term investments, in combination with the diversification of timing of investment for example, will reduce foreign exchange risks associated with an investment in foreign currency denominated assets. Further, long-term investment functions, effectively to avoid suffering a large loss by selling at the bottom price in panic, typically at the time of a financial crisis.²⁸

(d) Appropriate use of outside expertise

Item 15: Understanding the importance of appropriately employing outside expertise when selecting/using financial products

The financial industry is highly specialized and complex, and often influenced by the psychological and emotional factors of individuals. Therefore, even those with an adequate level of financial literacy cannot fully protect themselves solely through their own knowledge and judgment. Having the

²⁷ Any individual of 20 years of age or older can open an account. When purchasing stocks and investment trusts with the maximum allowable investment at JPY1 million, the investment is tax free in terms of dividends/capital gains for 5 years. After the initial 5 years, the holder of the account can either maintain the investment by utilizing an additional allowable amount under the existing ISA account and hold the investment free of tax, or transfer and maintain the investment in a regular account.

²⁸ In relation to the financial crisis etc., going forward, it is important to enhance the contents of financial education and incorporate knowledge of behavioral economics, such as mass psychology.

capability to access appropriate information and consulting services in advance, and understanding the necessity to seek third-party advice in selecting financial products, are the critical factors of financial literacy.

③ Establishment of standards for systemic educational content

For the efficient and effective promotion of financial education, it is important to offer learning opportunities to systematically cover the abovementioned minimum level of financial literacy for every stage of the lifecycle: i.e. for students, working population, and senior citizens. Accordingly, when financial education is promoted by the various responsible entities, it is considered meaningful to establish more detailed standards that organize and provide such educational content by age and category, in combination with the 15 items in four categories set out as the minimum for financial literacy.

In this sense, there is a comprehensive standard for financial education²⁹ in the U.K. encompassing all lifecycle stages, including students, working population, and senior citizens. This standard is utilized as guidance for promoting financial education by the various responsible entities.

In Japan, there exists the school-level standard in the “Financial Education Program” developed by the Central Council. Going forward, the study group needs to establish a standard of educational content that provides learning goals for each generation, including working population and senior citizens, in reference to the OECD’s “Financial Education in Schools”³⁰ and the Japan Association of Financial Planners’ “Personal Finance Education Standards.”

In doing so, the school levels should be divided into four categories, comprising elementary, junior high, high school, and university students; and the working population/senior citizens into three categories: young working population, general working population, and senior citizens. The educational contents

²⁹ The U.K. Department of Education and Employment published a set of standards for education in schools titled “Financial Capability through Personal Financial Education,” presenting educational contents that need to be taught (family budget management, life planning, importance of decision making in using financial services) at four key stages. Also the U.K. FSA. published the standards for education for working adults in “Adult Financial Capability Framework (2nd Edition).” This sets out the required skills, knowledge, and understanding at three distinct levels (basic, intermediate, and advanced). Each of the three levels is broken down into the following sections: Financial knowledge and understanding; Financial skills and competence; Financial responsibility.

³⁰ Published by the OECD in March 2013.

should include the items described below. The study group notes that it is preferable that university students obtain the same financial literacy as young working population given their lifestyle: increasingly involved in opportunities to handle money, living alone, receiving income from part-time work, and utilizing credit cards and other loans.

(a) School-age level

At school level, it is important to educate students in family budget management and the importance of life planning by the time they become working adults. It is also necessary to teach the fundamental information required for financial education (e.g., interest (simple and compound), inflation, deflation, exchange rates, risk-return, etc.). In particular, high school and university students should understand these important items thoroughly in preparation for becoming working population.

(b) Working population and senior citizens level

At the level of working population and senior citizens, it is important for them to understand, on their own, the true risks concerning financial products, obtain the minimum level of financial literacy as described in section 4 (1) ②, and develop the capabilities to make their own judgments in selecting financial products.

For example, young working population has a greater need to increase financial assets for the future, and it is appropriate to include moderately risky financial products in their investments. However, it is necessary to educate them that the appropriate financial behavior differs among age groups. For example, assets owned by senior citizens largely consist of less risky assets, although, fundamentally, risk appetite varies among individuals.

Senior citizens, who probably did not receive sufficient financial education, have a high likelihood of coming across various problems and possible fraudulent activities. Therefore, they need to make sure they remain cautious of suspicious transactions, such as those claiming over-large

returns, and make their judgments carefully.³¹

(2) Recipients of financial education

The recipients of financial education range from young children to senior citizens. Given the limited resources, however, the study group needs to prioritize certain recipients depending on the circumstances.

As mentioned previously, the contents of financial education in school education have been strengthened through the revision of government course guidelines, and it is important to sustain such efforts. At the same time, while there are number of educational activities implemented by various financial industry groups, financial institutions, etc., only a limited number of working population and senior citizens are covered by such activities.

The number of households without financial assets is growing, and many senior citizens still lose money on fraudulent financial transactions. These facts point to the necessity of financial literacy for working population and senior citizens. As such, financial education for working population and senior citizens, who in general have only limited opportunities for education, needs to be prioritized. Also, financial education should be promoted carefully in consideration of the fact that people's lifestyles have become more diverse and the typical lifestyle in the past—employment, marriage, childbirth, house purchase, and retirement—is no longer so prevalent.

Other than the above, the study group needs to ensure that the socially vulnerable and the low-income group, who are likely to have difficulties in life planning, receive adequate financial education. Given the fact that a large amount of information is now provided via the Internet, the study group should also pay attention to people without easy online access.

³¹ According to the Central Council's "Financial Literacy Survey (September 2012)", senior citizens are more financially prepared than other age groups. However, the survey shows a low accuracy rate on questions testing for practical knowledge and a low level of interest in terms of information gathering, despite rating themselves highly for their knowledge and judgment skills.

(3) Approaches in each category³²

① Approaches designed for students

(a) Elementary, junior/senior high schools

As discussed earlier, school-level financial education is provided within the social studies, civics, and home economics curriculums. It is necessary to enhance financial education within home economics in terms of family budget management and life planning, particularly at the high school level before employment, and where the focus should be on behavioral education, such as family budget management and life planning, and an emphasis placed on improving financial literacy as a life skill.

The government course guidelines and contents of textbooks have been improved for home economics studies. However, considering the limited number of teaching hours and current conditions regarding the duties of teachers and available training, it is important to develop and provide easier-to-use supplementary teaching materials/reference materials, such as classroom teaching videos, etc., and to increase available training/symposiums to enhance teachers' awareness and skills concerning life planning.

It is continuously important to teach students the structure and functions of finance and to provide knowledge related to financial and economic conditions, in addition to help them develop life skills. Therefore, education at schools should further be promoted through facilitating role-sharing and coordination among social studies, civics, and home economics teachers.

It should be noted that while good teaching materials are being developed and provided by financial industry groups and financial institutions, they are in use only in a limited number of schools. Thus, some members have addressed the need for effective use of good

³² Other than the activities described in this report, the study group expects the continuing active involvement of the Central Council and local councils, taking a neutral and fair position and supporting financial education in schools and financial education activities for working population/senior citizens.

teaching materials.

Further, it is desirable to provide education for pre-school level children in preparation for such school-level education.

(b) Universities

It is also necessary to provide financial education courses in universities. For example, some members have pointed out the necessity of financial education during the first two years of in universities in order to improve literacy.

② Approaches designed for the working population and senior citizens

(a) Enhancement of Defined Contribution Plan(DC) education

Defined Contribution Plan (DC) education is considered a promising channel to financially educate the working population. In order to further enhance Defined Contribution Plan (DC) education, it is necessary to secure opportunities, especially for continuing education, and consider measures to enhance the contents of such education without excessive demands on participants' time and efforts. Defined Contribution Plan (DC) education will likely become the more effective ground for investment education, in line with an increasing awareness in related parties concerning improvements to induction training and the need for continuing education.

(b) Pursuing approaches through local governments

As mentioned earlier, the involvement of local governments (consumer affairs centers, community centers, etc.) in financial education has been limited to date. However, local governments are public entities, separate from financial industry groups and individual financial institutions. Thus, the study group expects that financial education through local governments will be improved and strengthened as a channel for financial education for working population and senior citizens reflecting the unique features of

each local area.³³

The reasons behind the limited involvement of local governments include the lack of coordination between related organizations and the unclear positioning regarding financial education under consumer education, in addition to the restraints on budget/human resources. Therefore, it will be effective to include financial education in the “Basic Principles of Consumer Education” to be set by the government in accordance with the “Act on Promotion of Consumer Education” (enacted August 2012), and then incorporate it into the “promotion plan” to be devised by local governments. This should encourage the promotion of financial education through coordination among various entities. In addition, some members mentioned the possibility of including welfare-related entities as potential candidates for such coordination.

Furthermore, independent activities by citizens often have a continuity issue due to the reliance on particular individual’s leadership. Therefore, the necessity of local government’s continuing support for these activities has been acknowledged.

(c) Efforts of financial industry groups and each financial institution

Financial industry groups and financial institutions are important contributors to financial education. The study group expects their continuing involvement. At the same time, the difficulty of drawing a clear distinction between efforts by these entities in terms of education and sales promotion has been pointed out. Therefore, when holding seminars, these entities should clarify whether the seminar is held for the purpose of financial education, providing the minimum level financial literacy discussed in section 4(1)②, or primarily for the promotion of individual products.

Other than the above, it is desirable that financial industry groups and financial institutions provide financial education targeting not only working adults but new graduates, hold seminars for social studies, civics, and home economics teachers, and develop/provide supplementary teaching materials by taking advantage of their own individual characteristics.

³³ In the U.S., the “President’s Advisory Council on Financial Capability” issued a paper, “Creating Financially Capable Community (March 2012),” asking the leaders of state and municipal governments to promote financial education.

- (d) Providing preventive and impartial advice, etc.

Although Japan's post-event consulting on problems of financial transactions is becoming fairly strong, the prevention of problems is considered more important. In order to prevent the problems from arising, the improvement of financial literacy through financial education is essential. Further, in the U.K., preventive advice, including life planning, is available, and Japan should also enhance the provision of preventive advice. In this regard, the study group plans to thoroughly disseminate a tool for self-examination of life plans which is available on the website of the Central Council ("*Shiruporuto*") as the first line of access for neutral advice, and review and improve the content as necessary. Further, in addition to web-based advice, the study group needs to consider providing neutral advice by telephone or on a face-to-face basis over the mid-term. For example, some members noted the possibility of establishing a system to provide preventive advice using a financial planner whose role was originally to provide advice as well as a funding plan in line with an individual's life plan, or through consumer affairs centers where a consultation system is already established.

In addition, some have noted the need for a review as to the measures for incentivizing users or those for informing users of the necessity to actively seek financial education.

③ Development of human resources for financial education

In promoting financial education, it is important to develop human resources for teaching in order to ensure high-quality financial education in future. As such, it is important to promote financial education through initiatives to enhance schoolteachers' awareness and skills for financial education and various other means, such as the use of those retiring from work in financial institutions. It is important to make efforts to nurture human resources to understand the minimum necessary financial literacy (15 items in four categories) and the standards for systematic educational content; to be equipped with on-site teaching skills; to avoid any sales promotion while providing financial education; and to have the capabilities to provide advice from the user's position and to be responsible for the requirements for confidentiality.

④ Improvements to provision of information on financial products

Given the large disparities between supplier (seller of financial products) and user (buyer of financial products) in financial ability, it is necessary to continue regulating the providers of finance by the relevant authorities while improving users' financial literacy. In addition, the enhancement of neutral third party information is important.

For example, in order to have simple investment products appropriate for mid- to long-term asset building widely accepted, it is necessary to improve the financial literacy of users and nurture their ability to independently select and use appropriate financial products. Further, in line with the introduction of a Japanese version of the ISA, the study group should require clearer disclosure of material information (fees, risks, and returns) concerning the main investment trust products. At the same time, the study group needs to consider providing clear comparative information through neutral third parties.

(4) Measures for promoting financial education

① Organizations for promoting financial education

Various independent providers should share the minimum level financial literacy to be achieved (section 4(1)②), secure the necessary budget, and play respective roles, thereby encouraging more efficient and effective promotion of financial education.

As such, the FSA and other relevant authorities need to play a more active role in promoting financial education. It is considered appropriate to establish a "Committee for the Promotion of Financial Education" (tentative name), as a forum for promoting financial education by utilizing the network of the Central Council.

The most important issue going forward is to realize the minimum necessary financial literacy (15 items in four categories), as summarized in this report, in such a way that responsible organizations, such as schools, local governments, financial industry groups, financial institutions, and NPOs can follow it, and then define and systematize what is to be learned at what age and in what order.

At the same time, the study group will start reviewing the channels to provide information related to financial education. Specifically, the study group will promote the Central Council's website ("*Shiruporuto*") as the first line access point on the Internet and link this site with the websites of other related authorities and organizations, thereby establishing a system in which users can access information easily and comprehensively.

In promoting the mutual linkage of websites, more specific and practical contents, such as comparative information provided by a neutral party on financial products, including investment trusts, should also be provided. This will increase convenience from the viewpoint of the users of financial products, while encouraging suppliers to offer better financial products. At the same time, the study group will consider providing neutral advice as well as setting up a contact point for those who cannot access the Internet easily, and enable such users to obtain the same information available on the website via the telephone, etc.

Further, the study group will conduct a review of the issues identified in this report in addition to the development and maintenance of human resources who can play an important role in financial education.

When implementing the above tasks, it is important to ensure their progress by following up the overall progress among related parties through the forum "Committee for the Promotion of Financial Education" (tentative name).

② Regular measurements of effectiveness

It is important to measure the level of financial literacy of Japanese nationals' regularly.

In this regard, the Central Council's "Financial Literacy Survey" is highly effective in terms of the following:

- Although it is difficult to make a direct comparison of the various systems operating in different countries, the questions aim to achieve a certain level of international comparison.
- In addition to the questions related to basic knowledge, such as interest rates (simple and compound) and inflation, the survey includes questions regarding savings for the future, self-assessment regarding

financial knowledge and judgment skills, the basis for decision making in relation to financial products/transactions, and the method for collecting financial information. Thus it covers issues related to behavior and attitude as well as knowledge.

For the efficient and effective promotion of financial education in the future, the study group should continue utilizing the above survey, reviewing it as necessary, to measure the degree of penetration of financial education in Japan.

5. Conclusion

A little over 10 years have passed since the importance of financial education was pointed out in the Finance System Council's report of 2000 and Japan started taking actions to enhance financial education.

It requires a considerable amount of time to educate people in a range of issues, including family budget management, life planning, and behavioral matters such as utilization of external information, and making judgments in selecting appropriate financial products, in addition to basic financial and economic knowledge. Therefore, it is important to promote the required tasks persistently and continuously from the mid- to long-term point of view for the country as a whole.

Further, as discussed in the report, an improvement in financial literacy as a whole will realize better finance. Not only will quality of people's lives be enhanced through the improved life skills, but also suppliers of financial products will be encouraged to provide better products and supply funds to growing industries via the promotion of mid- to long-term diversified investment and contribute to the overall growth of the national economy. The study group asks financial industry groups and financial institutions as suppliers of financial products to take into consideration the significance of improved financial literacy and further contribute to this issue.

In 2012, the importance of financial education was acknowledged again by the OECD and G20. By actively working on the issues identified in this report, the study group expects that Japan's financial education will achieve one of the highest standards among OECD member countries.

The study group hopes that, based on this report, related parties will coordinate activities, work together, and continue promoting financial education efficiently and effectively, aiming to enhance the overall financial literacy of Japanese nationals.



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