Financial Education and Financial Inclusion

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Households’ Asset Allocation

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

USA
- Stocks, 1170
- Securities, 782
- Insurance and Pension Funds, 1049
- Cash ans Deposits, 567
- Others, 147
- Total, 3715

Japan
- Stocks, 44
- Securities, 103
- Insurance and Pension Funds, 399
- Cash ans Deposits, 792
- Others, 58
- Total, 1428

Germany
- Cash ans Deposits, 221
- Others, 5
- Total, 562
Allocation of Households Financial Assets

100 US Dollar

Securities
Insurance
Mean Value
Deposits

Financial Assets
# Households Financial Assets’ Allocation

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deposits</strong></td>
<td>54.2</td>
<td>55.2</td>
<td>56.9</td>
<td>55.0</td>
</tr>
<tr>
<td><strong>Time Deposits</strong></td>
<td>34.2</td>
<td>33.5</td>
<td>34.2</td>
<td>33.7</td>
</tr>
<tr>
<td><strong>Trusts</strong></td>
<td>1.0</td>
<td>0.9</td>
<td>1.2</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Life Insurance</strong></td>
<td>17.7</td>
<td>17.4</td>
<td>17.6</td>
<td>15.9</td>
</tr>
<tr>
<td><strong>Casualty Insurance</strong></td>
<td>2.7</td>
<td>2.7</td>
<td>2.2</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Private Pension</strong></td>
<td>5.5</td>
<td>5.8</td>
<td>5.7</td>
<td>6.0</td>
</tr>
<tr>
<td><strong>Securities</strong></td>
<td>15.4</td>
<td>14.3</td>
<td>13.2</td>
<td>16.9</td>
</tr>
<tr>
<td><strong>Bonds</strong></td>
<td>3.7</td>
<td>3.0</td>
<td>2.4</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>Stocks</strong></td>
<td>6.7</td>
<td>6.6</td>
<td>5.6</td>
<td>8.3</td>
</tr>
<tr>
<td><strong>Investment Trusts</strong></td>
<td>5.0</td>
<td>4.8</td>
<td>5.1</td>
<td>5.6</td>
</tr>
</tbody>
</table>
# Financial Assets by Age

<table>
<thead>
<tr>
<th>Age</th>
<th>Deposits</th>
<th>Insurance</th>
<th>Securities</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>635</td>
<td>303</td>
<td>179</td>
<td>52</td>
<td>1169</td>
</tr>
<tr>
<td>20years</td>
<td>266</td>
<td>26</td>
<td>40</td>
<td>10</td>
<td>342</td>
</tr>
<tr>
<td>30years</td>
<td>298</td>
<td>122</td>
<td>77</td>
<td>40</td>
<td>537</td>
</tr>
<tr>
<td>40years</td>
<td>355</td>
<td>241</td>
<td>85</td>
<td>62</td>
<td>743</td>
</tr>
<tr>
<td>50years</td>
<td>533</td>
<td>344</td>
<td>126</td>
<td>65</td>
<td>1068</td>
</tr>
<tr>
<td>60years</td>
<td>811</td>
<td>409</td>
<td>276</td>
<td>43</td>
<td>1539</td>
</tr>
<tr>
<td>70years</td>
<td>1035</td>
<td>333</td>
<td>287</td>
<td>52</td>
<td>1707</td>
</tr>
</tbody>
</table>
Population Ageing of Japan
Reasons to select financial institution

- Others
- Simple Financial Products
  - Easy withdrawal and easy to make deposits
  - Easy to change to cash (Liquid)
- Reliability and Safety
- Principal Guaranteed
- Expected High Rate of Return
- High Rate of Return
(Dividends & Interest receipt)/(Income)

Fees and Commissions of Distributors

1. Maximize Fee and Commissions (Distributors)
2. Trust Fees & Commissions = \( \alpha (Principal + Dividend) \)
Pension Funds’ Asset Allocation in Japan
Long-term Investment & Self Responsibility

1. Lack of long term asset management
   rotates every 2 -3 years
   Lack of corporate bond market

2. Life Insurance and Pension funds
   Defined Benefits of Japanese Public Pension
   few ratio of 401 K
   Self Responsibility for Asset Allocation

3. Mainly Invest into Government Bonds
   Safety and Principal Guaranteed
Compensation & Bonus System of Japan
Conservative Asset Management

1. Even if earnings would be very high → bonus is small
2. Fail in Asset management compared with others → Criticized
3. If everybody performs poorly, no punishment → Avoid Risks → Refer to Benchmark → Does not seek for higher rate of return
4. Performance based salary → US case
1. Secondary School and High School taught in the courses of “Geography and History” Many teachers are not graduated from economics

2. Financial education in Japan’s primary school are taught at “Home making courses”.

3. Very few hours are allocated to financial education

4. It is regarded as a shame making money by financial investments.

5. Retiree from financial institutions could teach financial economics to pupils.
Households’ Borrowings in Japan

- Housing Loan
- Auto Loan
- Education Loan
Number of Households’ Default

(件数)

New Law – Microcredit Regulation
consumer education

1, Total Amount of Borrowing < 1/3 of Income

2, Ceiling Interest Rate = 20%
   more than 100%  →  29%  →  20%

3, Borrowers Information
   Aggregated total individual borrowings

4, Paper examination to be a lender

5, Minimum capital requirement

6, Consumer complaints and advices
Bank based SME financing and Regional financing to Riskier Borrowers

1. Bank Loans to relatively safer borrowers
2. Hometown Investment Trust Funds

E-Finance, E-Fund

Safer borrower

Riskier Borrowers

Banking Account

Hometown Investment Trust Funds

Depositors

Investors
Hometown Investment

A Stable Way to Supply Risk Capital
Yoshino, Naoyuki; Kaji, Sahoko (Eds.)
2013, IX, 98 p. 41 illus., 20 illus. in color.

Available Formats:

- eBook
- Hardcover

(gross) price
Investors

Community Type Infrastructure

Wind power Generator Funds
Japanese Wine Fund
SME Hometown Trust Fund
Local Airport
Agricultural Sector

Large Projects and Professional Investors

Pension Funds
Insurance companies
Mutual Funds
Infrastructure Finance

- **Government Bond**
- **Revenue Bond**
- **Success Case**
- **Failed Case**

**Axes:**
- $r$ (rate)
- $r_G$ (government rate)
- Construction Period
- Operation Period
- Time (Floor)

Graph shows the comparison between government and revenue bonds over time, highlighting success and failed cases.
Private Sector Green Trust Fund

(1) Brown Field
   Construction by the government
   introduce private sector funds afterwards

(2) New Projects (Green filed)
   Riskier
   good to be based on market basis
Manufacturing value added by enterprise size

Manufacturing value added
(¥80.3 trillion in 2009)

Of which small enterprises
Approx. ¥7.5 trillion
9.4%

Large enterprises
Approx.
¥39.7 trillion
49.5%

SMEs
Approx.
¥40.6 trillion
50.5%
SMEs in Japan
(Light Blue Mark is SMEs’ share)

Share of SMEs in Japan

<table>
<thead>
<tr>
<th>Number of employees (in thousand)</th>
<th>Sales (in JPY bn)</th>
<th>Number of companies (in thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Large enterprises</strong></td>
<td><strong>SMEs</strong></td>
<td><strong>Large enterprises</strong></td>
</tr>
<tr>
<td>29,960 (68.6%)</td>
<td>13,710 (31.4%)</td>
<td>37,800 (51.2%)</td>
</tr>
</tbody>
</table>

(2) Financial Position
(a) Tankan¹
DI ("easy" - "tight"), % points

- Large enterprises
- Small enterprises
Lack of Data for SMEs

- Large corporations
- SMEs
- Capital Market
  - Stocks and Bonds
- Credit Rating
- Credit Guarantee
- Banks
- Micro Credit
SME Data base (CRD Data base)

Credit Guarantee Corporations
(Collect Data of SMEs)
52

Financial Institutions
200
- Regional Banks
- Credit Associations
- Credit Cooperatives
- Government Banks
- Central Bank

1, Government Support
2, Reliability
3, Security of Information

CRD

SMEs
(14.4 million data)

Defaults
(1.7 million data)
CRD database for SMEs

1. Huge number of SME database
2. Nationwide balanced data
3. Default risk ratio can be computed
4. Continuous improvement of default estimates
5. CRD is a private company
6. Venture capital market is not easy to develop in Asian countries
Financial Education for SMEs

1, Book Keeping
2, Daily revenue and expenses
3, Long term thinking
4, Accurate reporting of their business
5, Reduce default loan losses
6, Reduce information asymmetry
Early Warning Macroeconomics Indicators

1, Monetary Policy
   - Interest rate
   - Growth rate of money supply

2, Bank Loans to real estate and housing sector

3, Growth rate of bank loans / Economic growth rate

4, Housing affordability (Housing Price / Income)

5, Stock Investment by Un-professional investors

6, Turnover ratio of Stock market increases
Households’ investment in Stocks

Trusts

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

![Graph showing trends in US bank loans, stock price, and housing price](image)

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

**Japan's Bank Loans, Stock Price and Land Price**

![Graph showing trends in Japan's bank loans, stock price, and land price](image)

*Fig. 5* Japan’s bank loans, stock price, and land price
Fig. 3 Japan’s growth rate of money supply and decline in overnight call rate
Fig. 6  Mortgage loans to total banks loans in the United States

Fig. 7  Growth rate of real estate loans in comparison with total loans in Japan
Fig. 8 Real estate loans/GDP ratio
Real estate Loan, Total Loan, GDP
(Base year=2000)  CHINA-Beijin

Real Estate Loan
Total Loan
GDP

price/income ratio of USA

Fig. 9 Housing price/income ratio of Japan
FY 2012 Initial Budget (Japan)

General Account Total Expenditures
90,333.9 (100.0%)

- National Debt Service
  - 24%
  - 21,944.2

- Redemption of the National Debt
  - 13.4%
  - 12,089.6

- Interest Payments etc.
  - 10.9%
  - 9,854.6

- Social Security
  - 29.2%
  - 26,390.1

- Public Works
  - 5.1%
  - 4,573.4

- National Defense
  - 5.2%
  - 4,713.8

- Education & Science
  - 6.0%
  - 5,405.7

- Local Allocation Tax Grants, etc
  - 18.4%
  - 16,594.0

- Others
  - 11.9%
  - 10,712.7

Primary Balance Expenses
68,389.7 (75.7%)

Source: MOF
References


