

2015 Global Retirement Savings Summit

Asset Allocation and Financial Education of Japan

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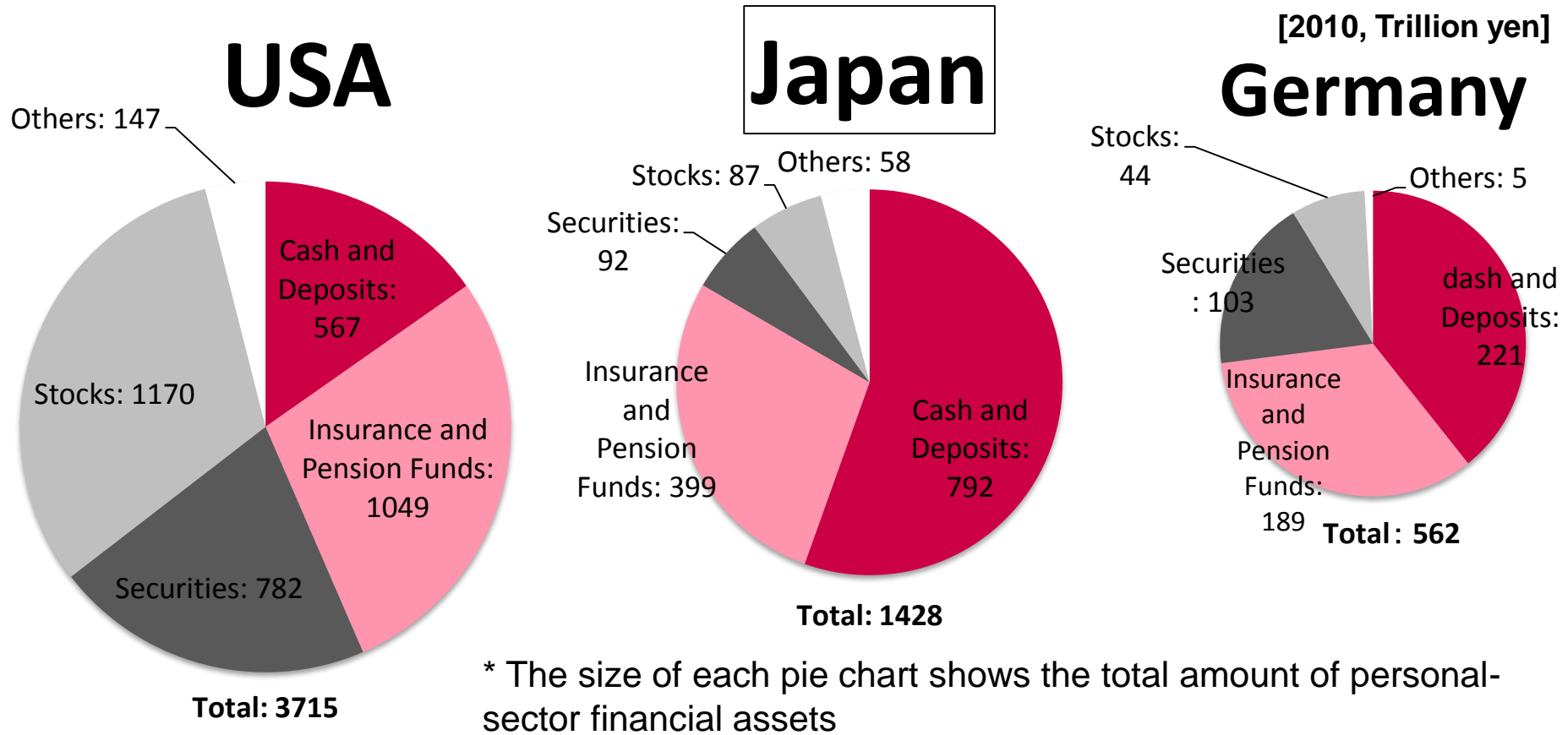
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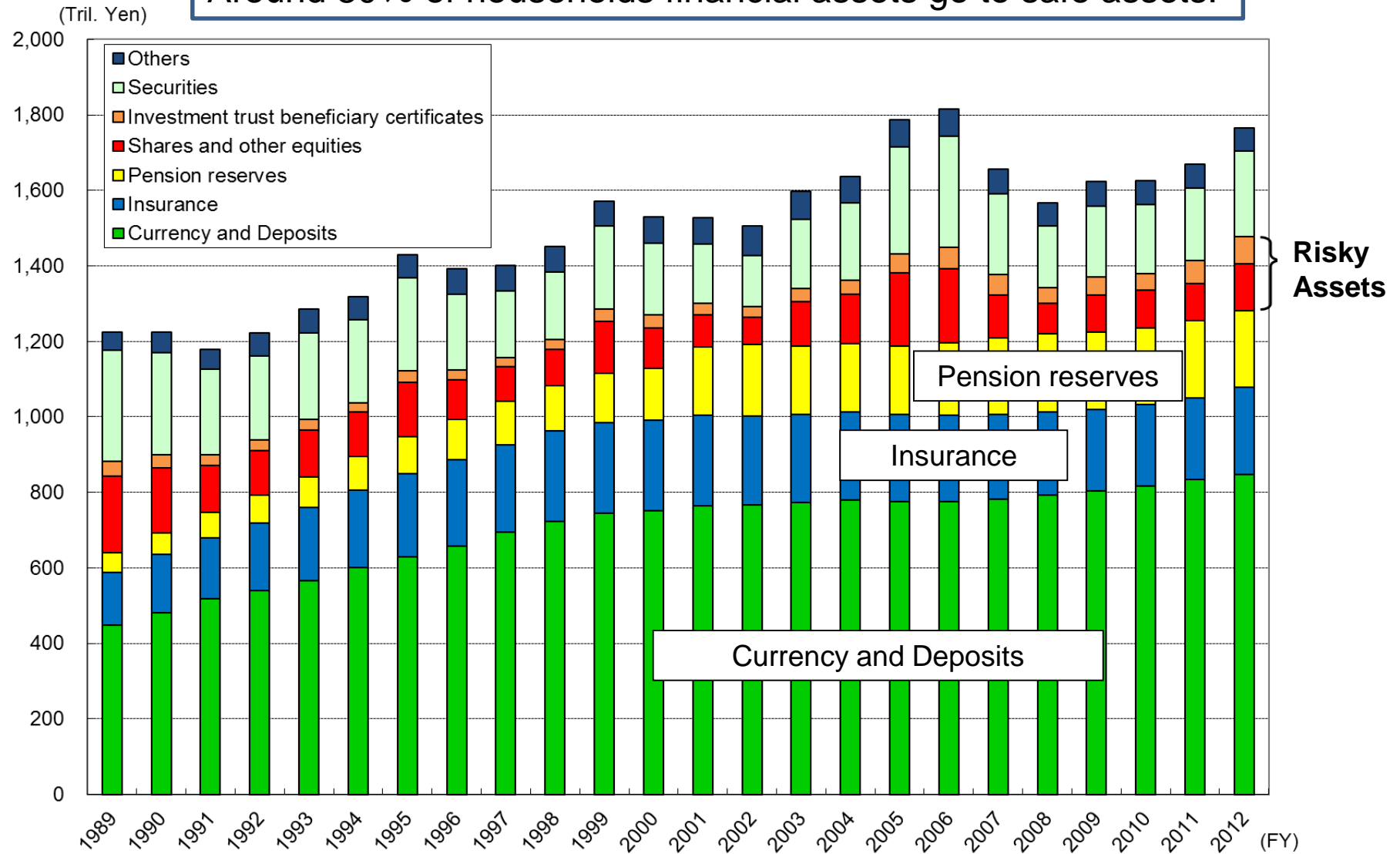
Households' Asset Allocation in Japan



“In Japan, cash and deposits are nearly 60% of assets managed. The amount of marketable securities and shares is extremely small.”
 Source: Yoshino & Kaji (2013) *Hometown Investment Trust Funds*, Springer

Households' Asset Allocation in Japan

Around 80% of households financial assets go to safe assets.



Source: Bank of Japan

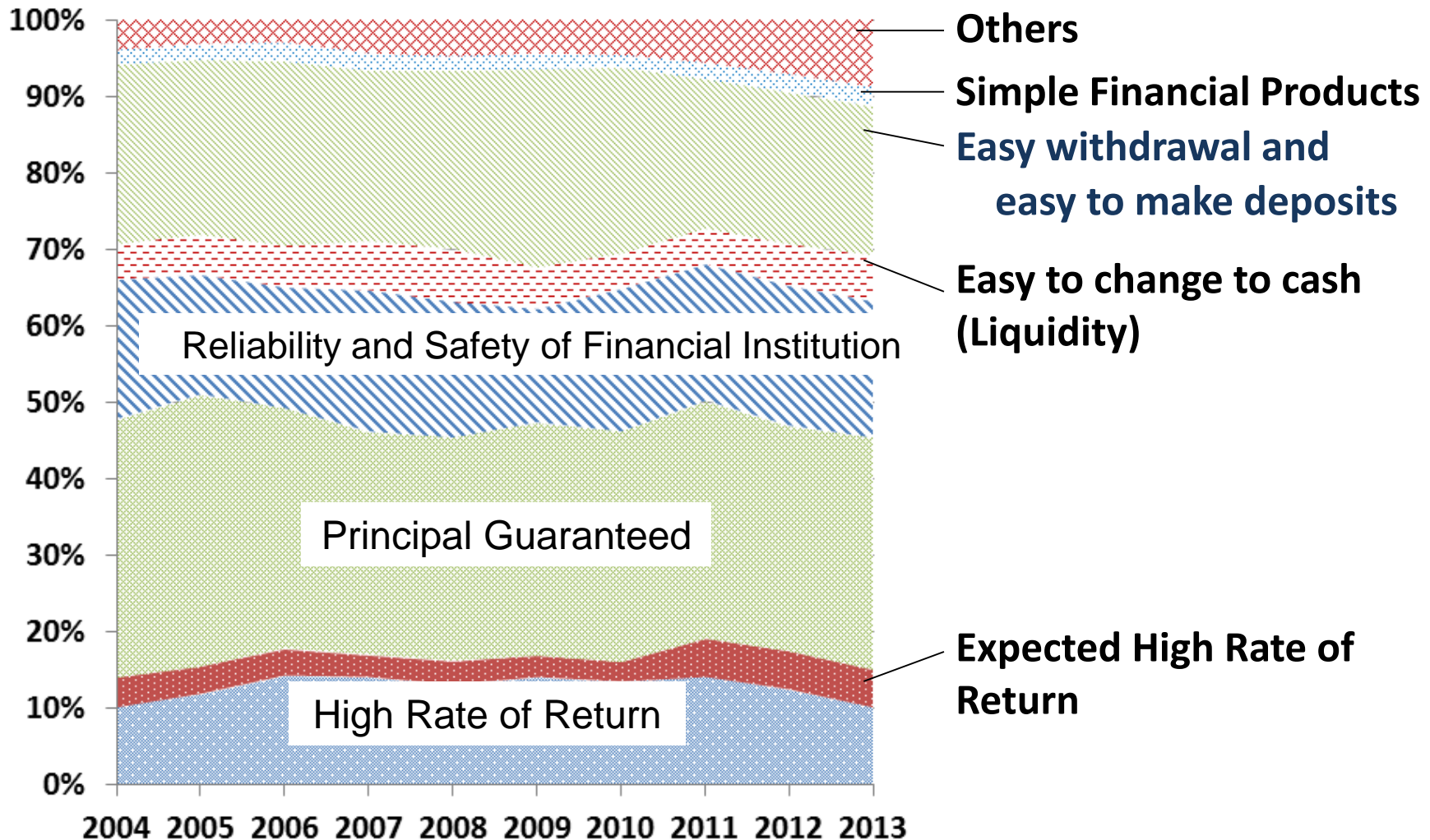
Financial Assets by Age

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

Households' Asset Allocation in Japan

Reasons behind customers' choice of financial institution

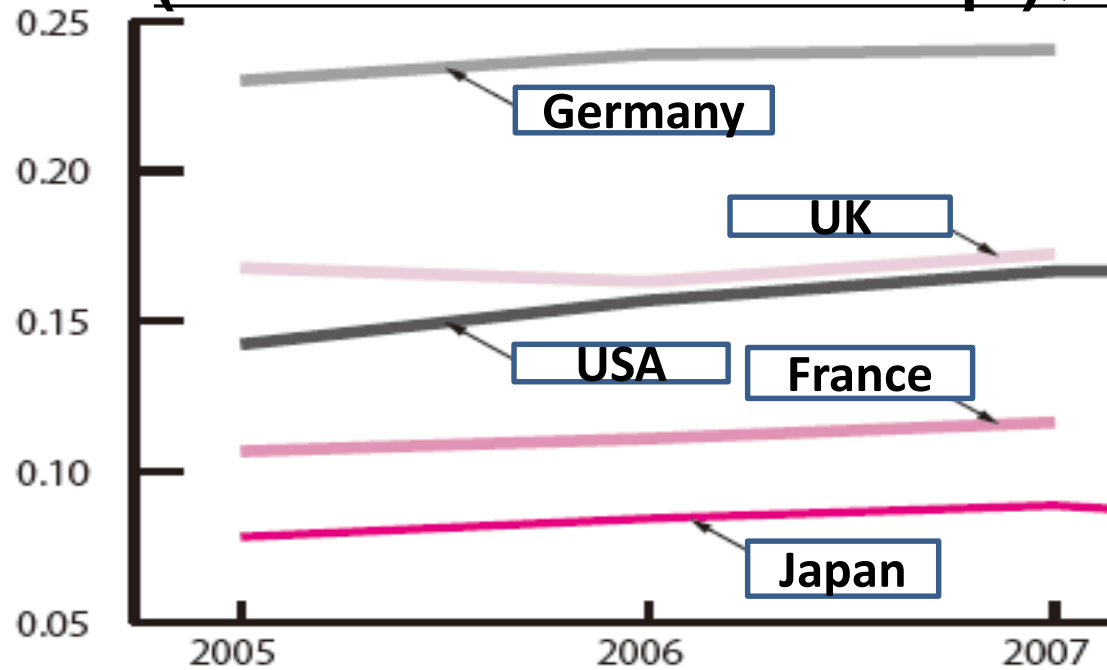
Around 50% choose financial institutions for safety, not for high rate of return.



Source: "Public Opinion Survey on Household Financial Assets and Liabilities (2013)," Bank of Japan.

Households' Asset Allocation in Japan (4)

(Dividends & Interest receipt) / (Income)



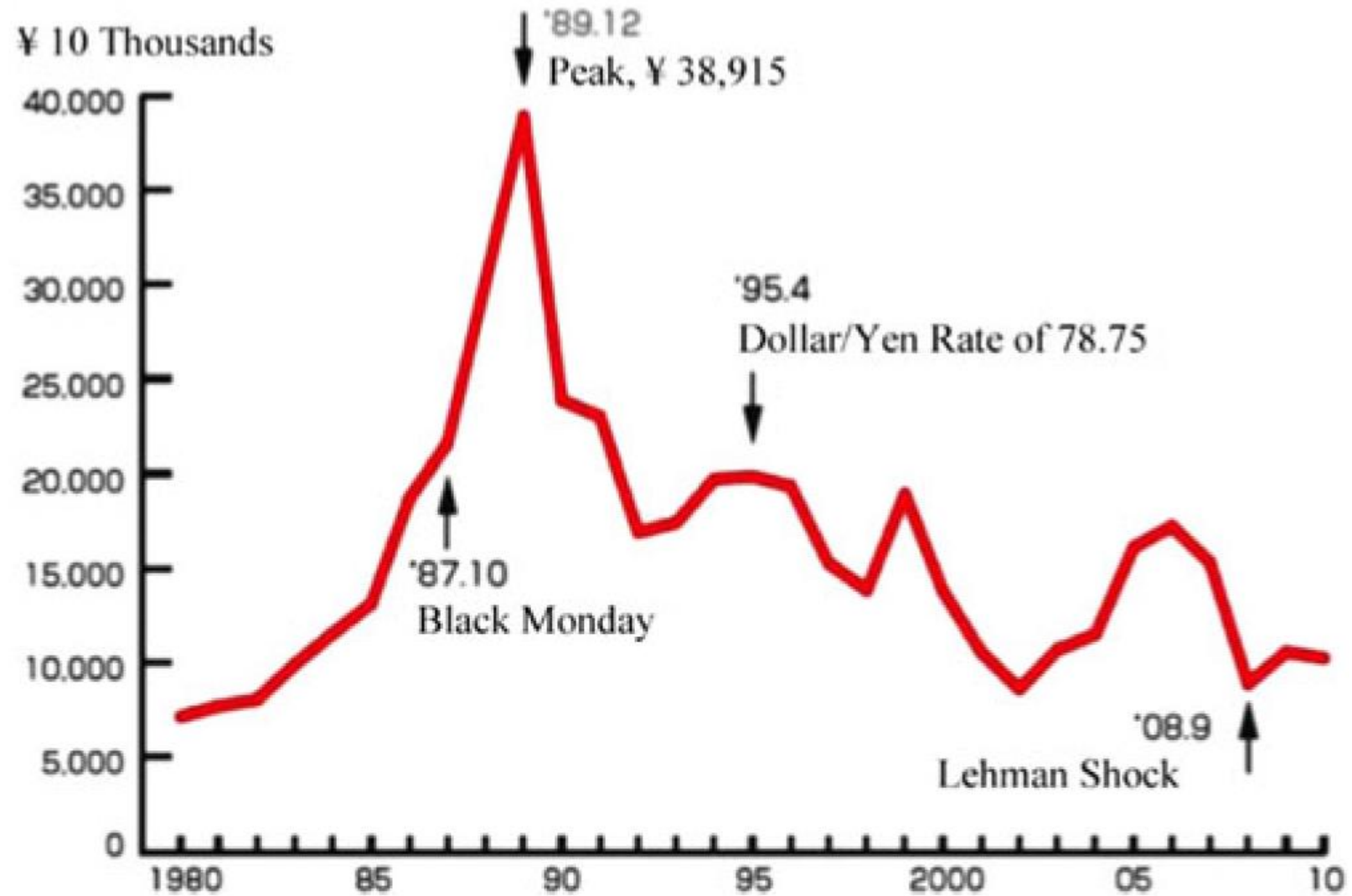
“Japanese are engaging in investment, but the fact is that their earnings as a percentage of income are the lowest in the OECD.”

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

Need for a change in the way of thinking (from saving to investment)

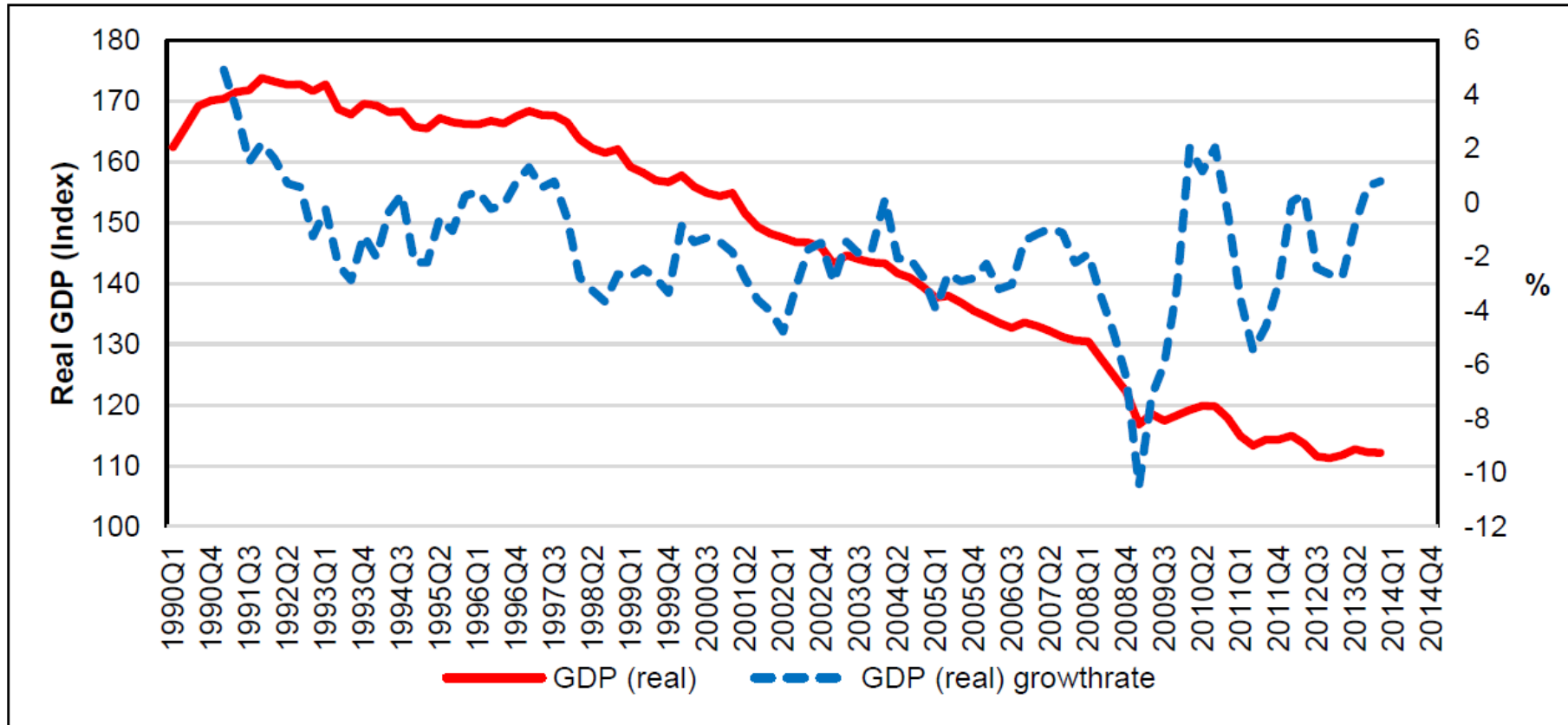
- For a long time, Japanese were taught to work harder, rather than to think about investment. There has been education at home, schools and work places that values hard earned money while easy money was considered unworthy.

Figure 11. **Nikkei Stock Average**



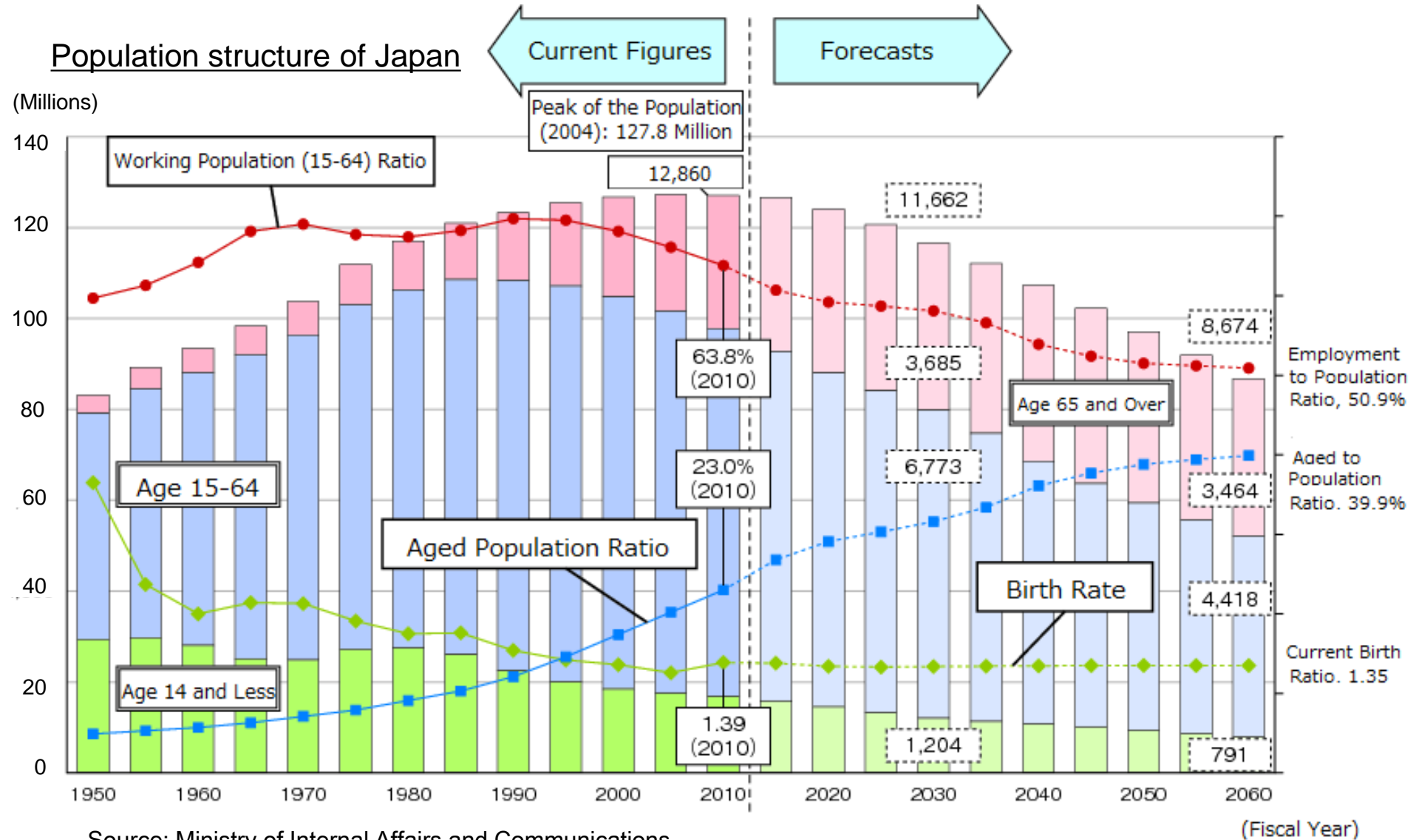
Source: Yoshino (2013).

Figure 1: Japanese Gross Domestic Product Trends, 1990–2014



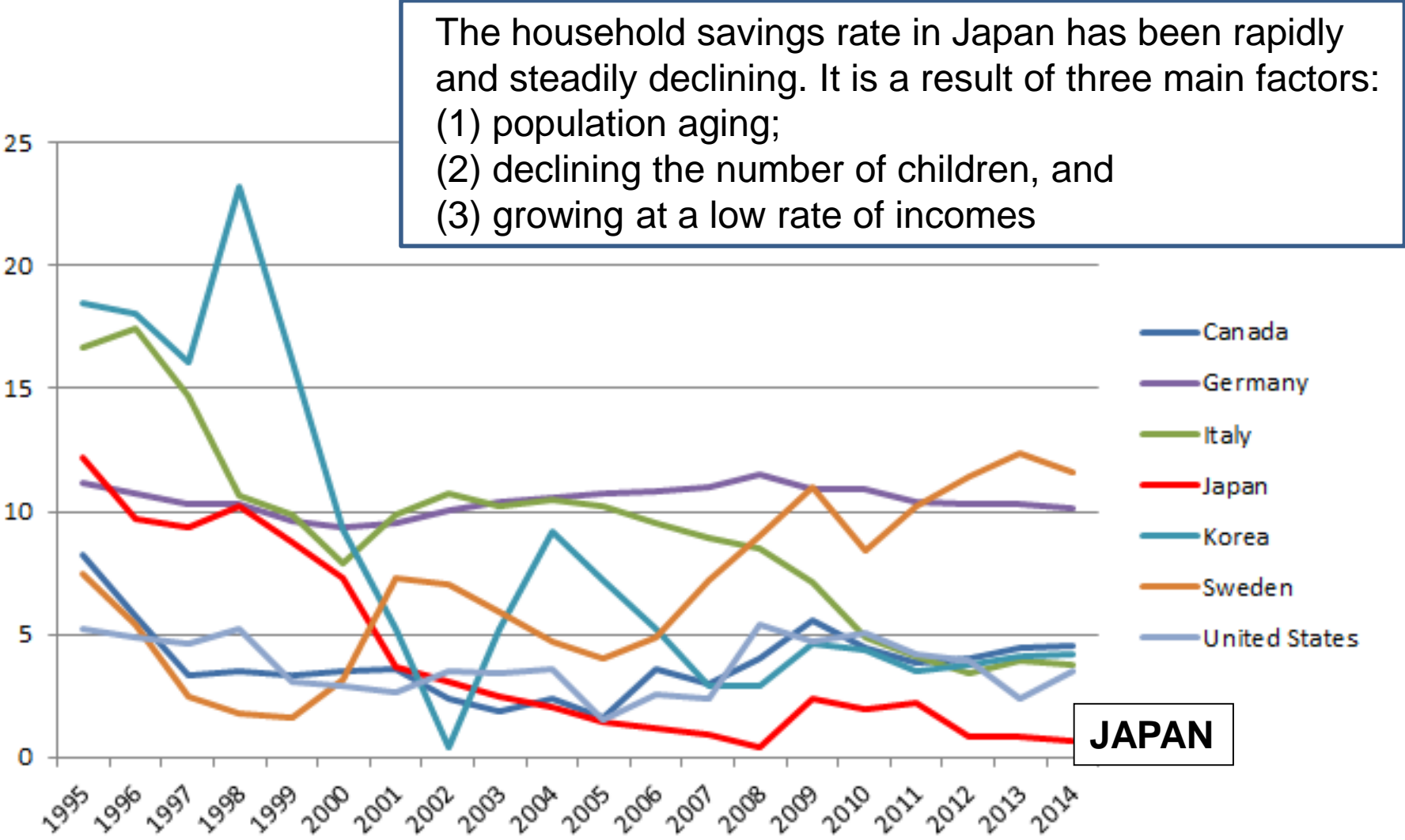
GDP = gross domestic product.

Japan's Aging Population



Declining Households' Savings Rate in Japan

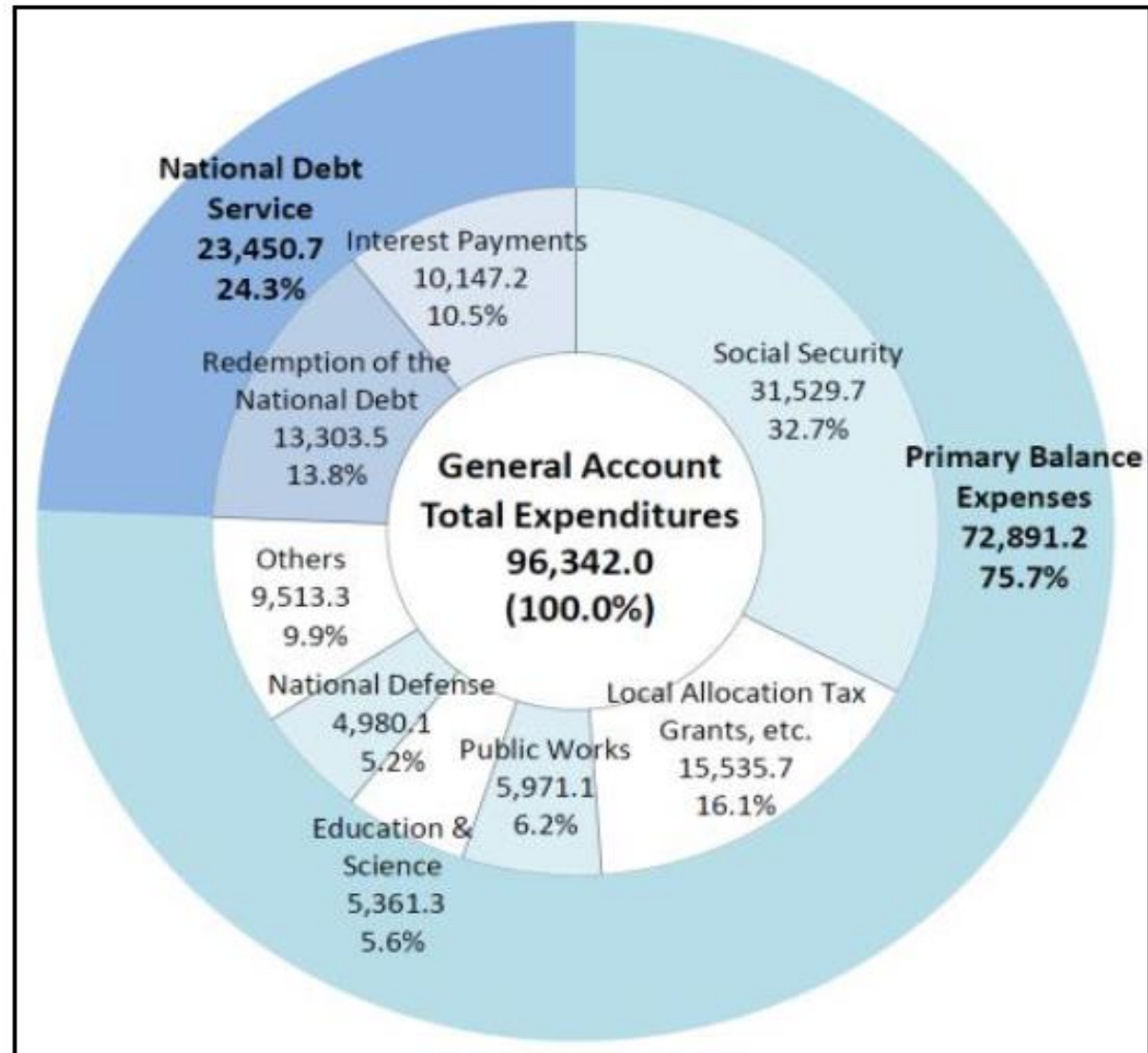
Households' saving rate Canada, Germany, Italy, Japan, Korea, Sweden and USA.



Source: OECD Economic Outlook, Volume 2013 Issue 1 - No. 93 -

General Account Expenditure Budget, 2015

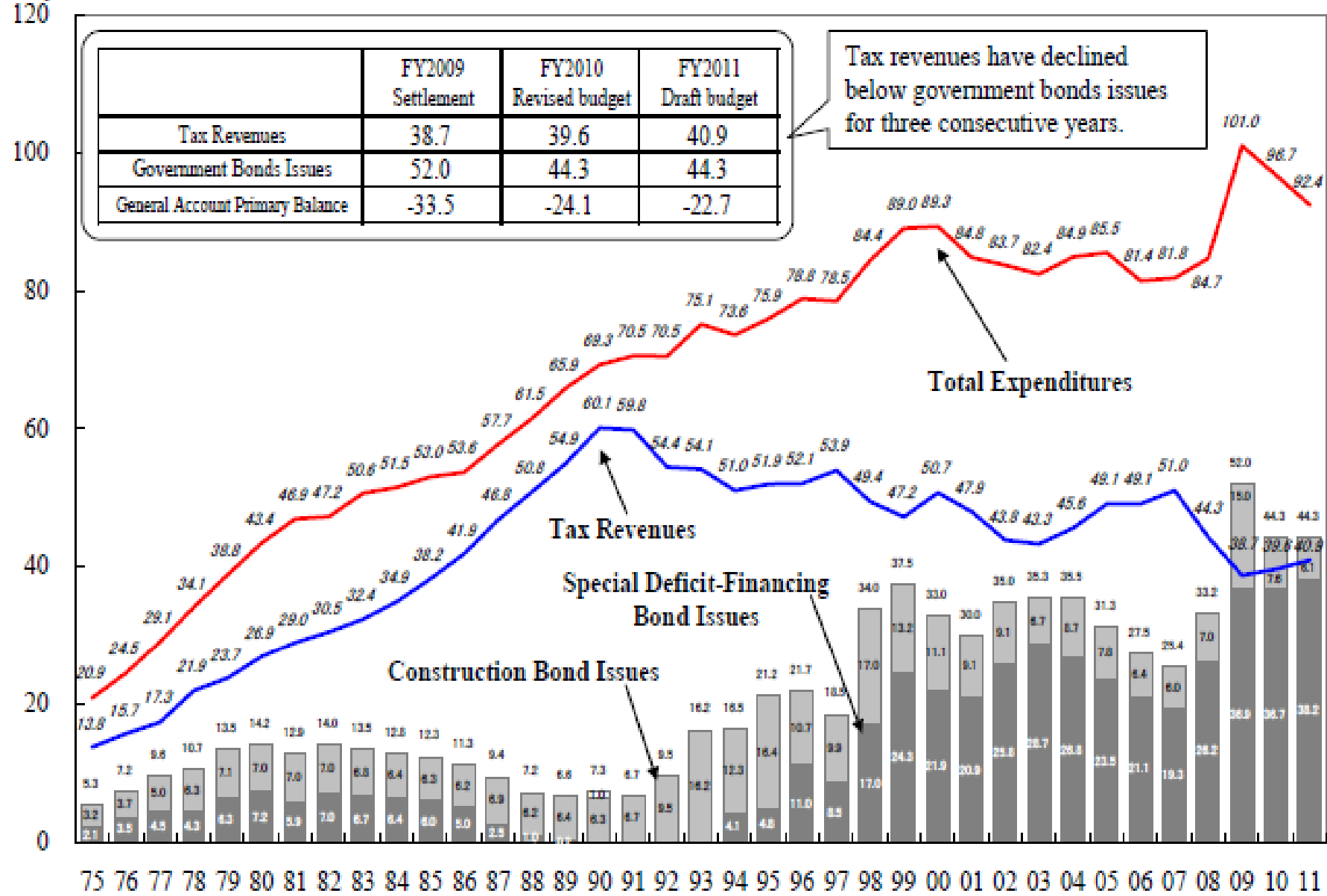
(¥ billions)



Fiscal Discipline (5)

General Account Tax Revenues and Government Bond Issues

(Trillion yen)



Tax revenues have declined below government bonds issues for three consecutive years.

Debt/GDP Ratio of Selected OECD Countries (%)

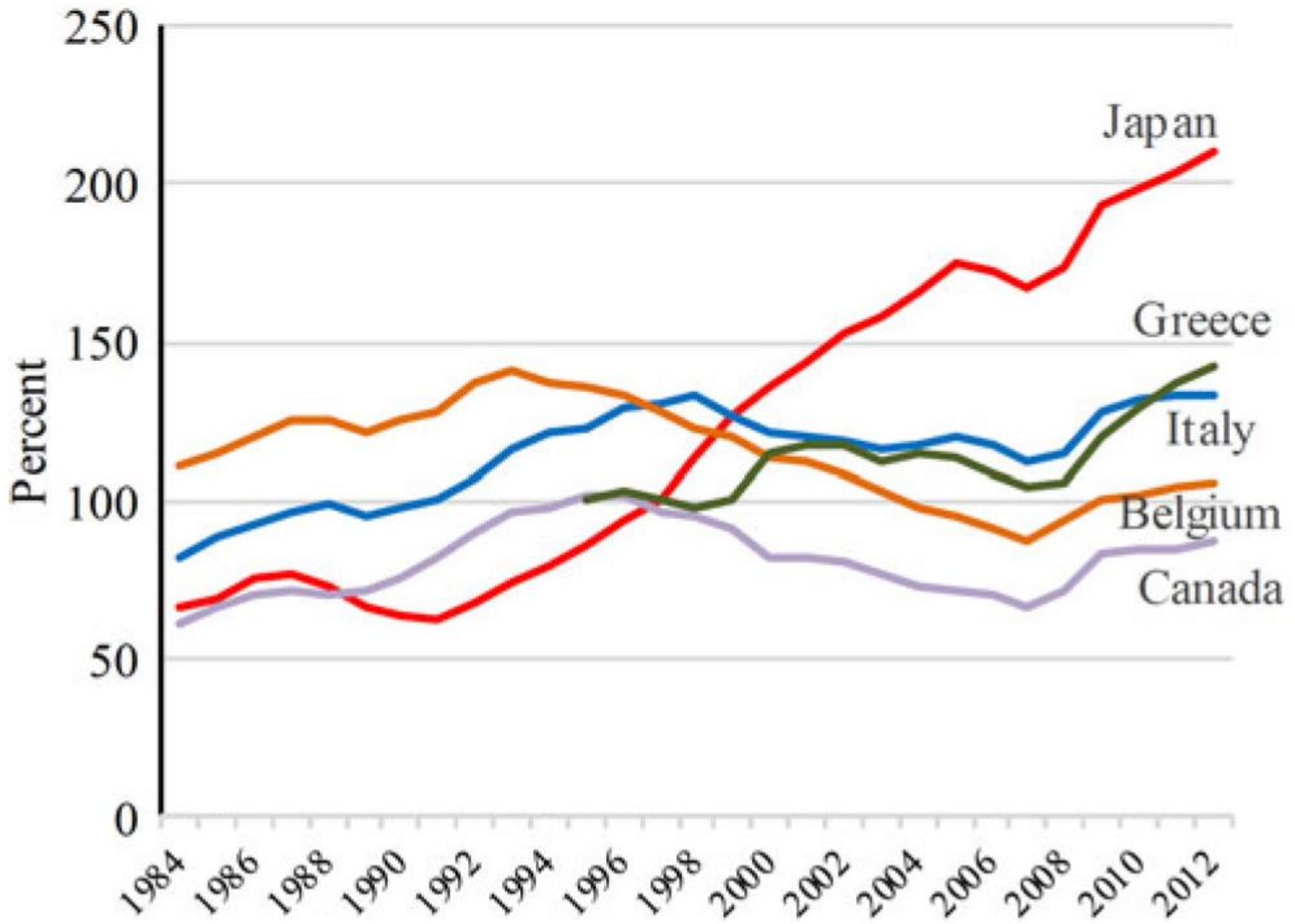
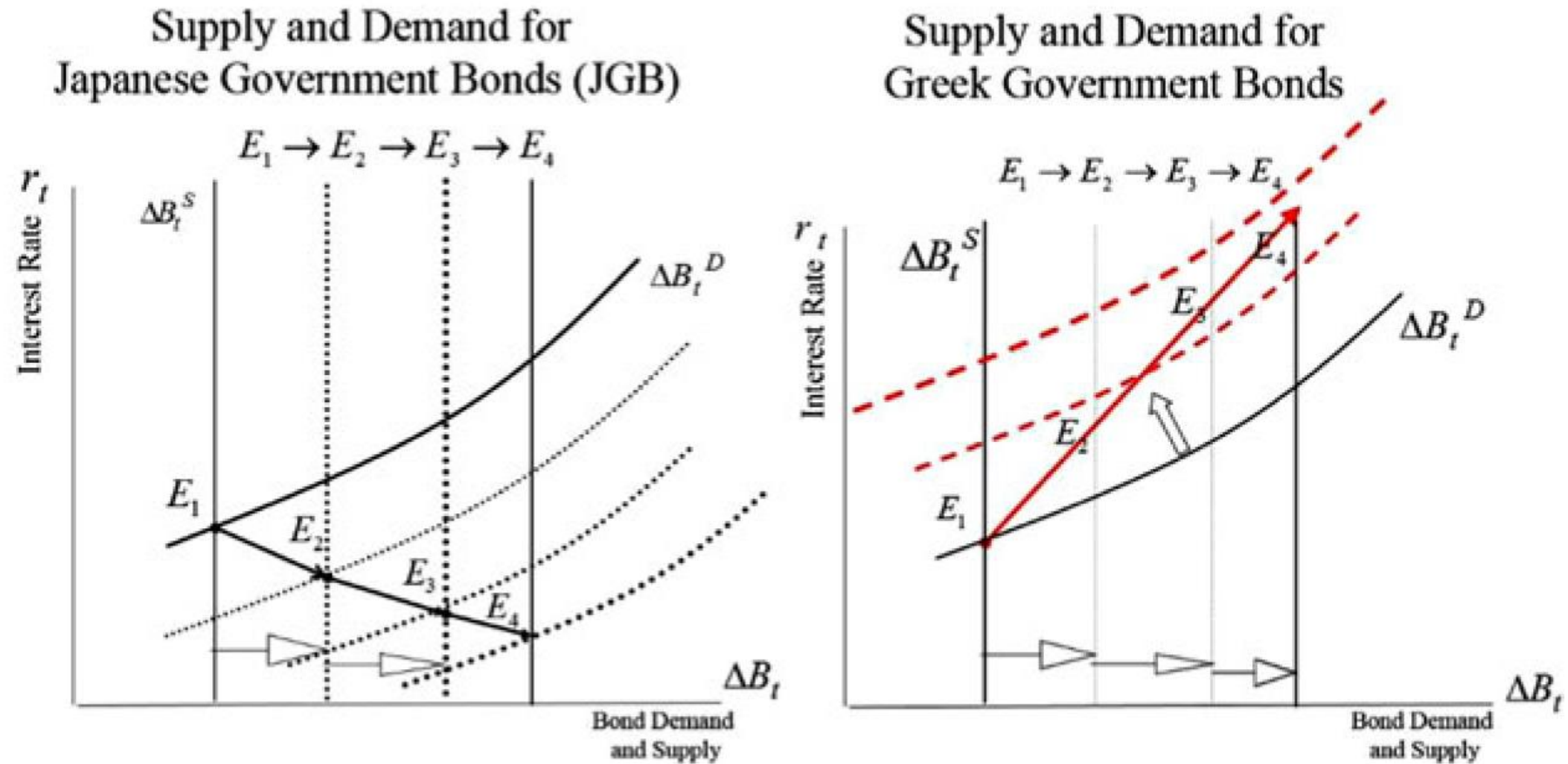


Figure 3. **Government Bond Market (Japan and Greece)**



Source: Yoshino and Taghizadeh-Hesary (2014c).

Table 1

 Holders of Japanese and Greek Government Bonds (2011)

Holders of Japanese government bonds	Percentage of total	Holders of Greek government bonds	Percentage of total
Banks and postal savings	45	Overseas investors	33
Life and non-life insurance	20	Domestic investors	21
Public pension funds	10	European Central Bank	18
Private pension funds	4	Bilateral loans	14
Bank of Japan	8	Social pension funds	6
Overseas investors	5	International Monetary Fund	5
Households	5	Greek domestic funds	3
Other	3		

Note: For Greece, 70% of the debt is held by overseas investors, as compared to 5% for Japan.

Source: Yoshino and Mizoguchi (2013).

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

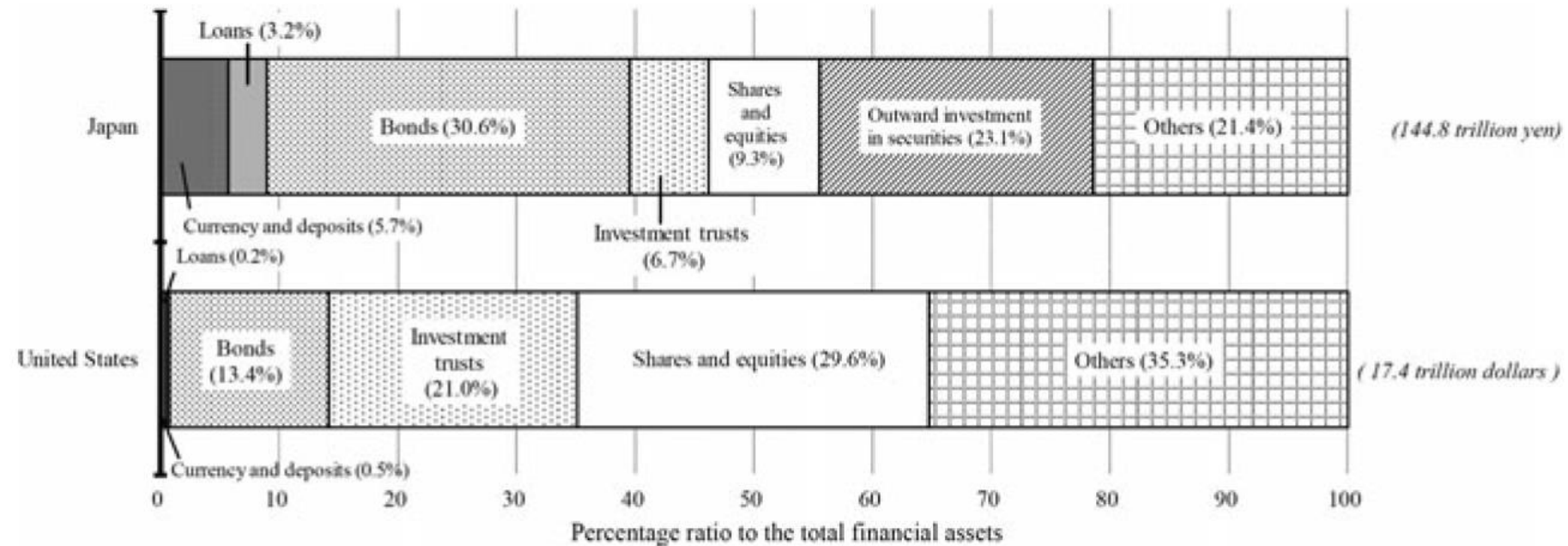
few ratio of 401 K

Self Responsibility for Asset Allocation

3, Mainly Invested into Government Bonds

Safety and Principal Guaranteed

Figure 8. **Financial Assets Held by Pension Funds in Japan and United States**



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 → Improve performance

Financial Education of Japan

- 1, Secondary School and High School
taught in the courses of “Geography and History”
Many teachers are not graduated from economics**
- 2, Financial education in Japan’s primary school
are taught at “Home making courses”.**
- 3, Very few hours are allocated to financial education**
- 4, It is regarded as a shame making money
by financial investments.**
- 5, Retiree from financial institutions could teach
financial economics to pupils.**

Development of Financial Education in Japan

“High-Level Principles on National Strategies for Financial Education”
endorsed by the G20 leaders at the Los Cabos Summit in June 2012



The JFSA organized a study group on financial education in November 2012

Japan’s National Strategies used to be:

(a) “Agenda for Finance and Economics Education” (2005)

(b) “Financial Education Program” (2007)



(a) was updated in April 2013 by

“Report of Study Group on Financial Education” (2013)



◆ Main Objectives of Financial Education in this Report

~Toward Fair and Sustainable Society~

1. As a Life skill,
2. Encouraging the provision of sound, high-quality financial products
3. Encouraging the effective use of household financial assets in Japan

Figure 1. Bank's balance sheet

Assets	Liabilities
Bank Loans Good Assets	Deposits
Non-Performing Loans (NPL) Bad Assets	Capital A(q₂)

Revankar N. and Yoshino, N., (2008) “An Empirical Analysis of Japanese Banking Behavior in a Period of Financial Instability,” *Keio Economic Studies*, Vol.45 No.1.

Yoshino, Naoyuki and Tomohiro Hirano (2011) “Pro-cyclicality of the Basel Capital Requirement Ratio and Its Impact on Banks ” (*Asian Economic Papers, MIT Press, Vol.10, No.2*)).

Basel Capital Requirements

Basel III → stricter control

- 1, Adequate Capital for Banks**
- 2, To keep healthy, enough liquidity**
- 3, SME loans will decline**
- 4, Start-up businesses are difficult to borrow**
- 5, SIFIs (Significantly Important FIs)**

Table 1. Estimates of Optimal Minimum Capital Requirement Ratios for Japan, United States and Canada

(1) Japan

$\theta^* = -2.20\%$ 1998 Q1 - 2008 Q4

(2) USA

$\theta^* = +4.42\%$ 2002 Q4 - 2007 Q4

$\theta^* = -1.116\%$ 2001 Q1 - 2002 Q4

(3) Canada

$\theta^* = +0.37\%$ 2003 Q1 - 2004 Q4

$\theta^* = +0.96\%$ 2006 Q1 - 2007 Q4

Table 1: Estimated Loan Supply Function

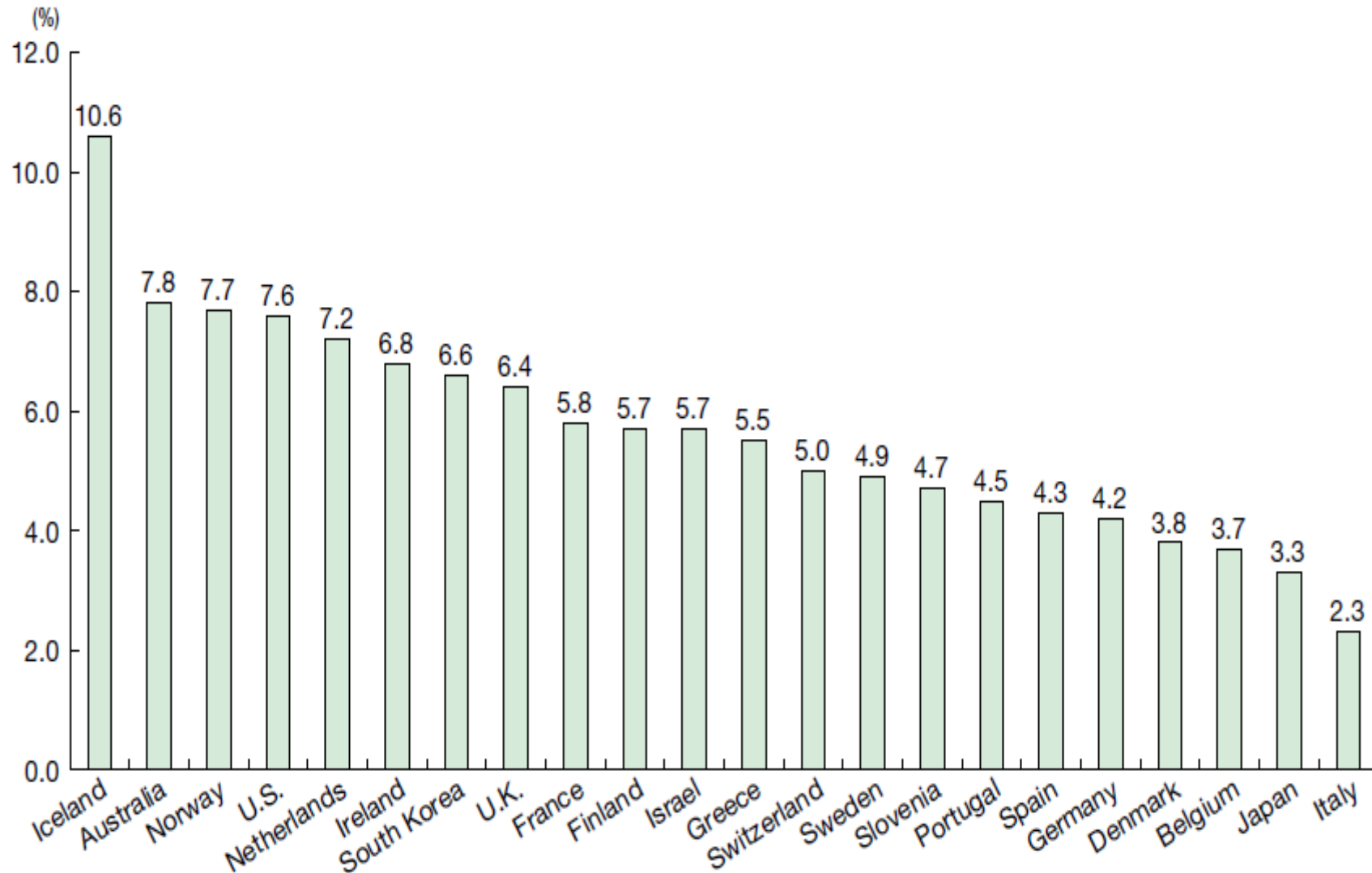
Dependent Variable (bank loan)	Period I (1982–1989)	Period II (1990–1995)
Bank deposit	0.658 (19.69)	
Market share	0.426 (1.48)	
Loan rate–call rate	16.298 (2.611)	21.351 (3.028)
Call rate	8.564 (2.568)	6.755 (2.904)
BIS-ratio	8.658 (2.353)	
Rival bank's previous period loan	0.066 (3.675)	0.038 (2.333)
Land price	0.123 (2.564)	-1.760 (-1.449)
Constant	-36.302 (-0.874)	
Adjusted R² 0.892, Hausman Statistic, CHI-SQUARE=0.923, P-Value=0.820		

BIS = Bank for International Settlements.

Note: Figures in parentheses are t-values.

Source: Revankar and Yoshino (2008).

Appended note 2-2-17 Total early-stage entrepreneurship activity (TEA) of selected countries

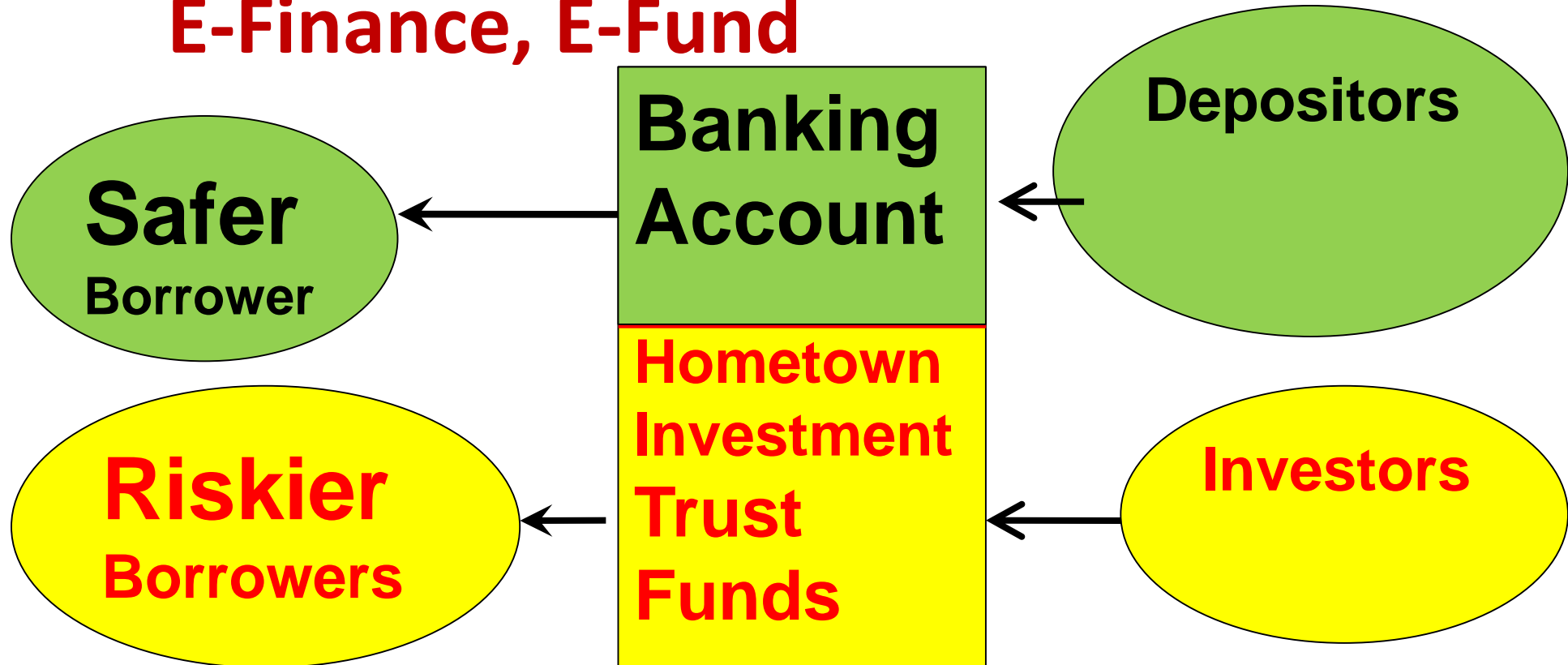


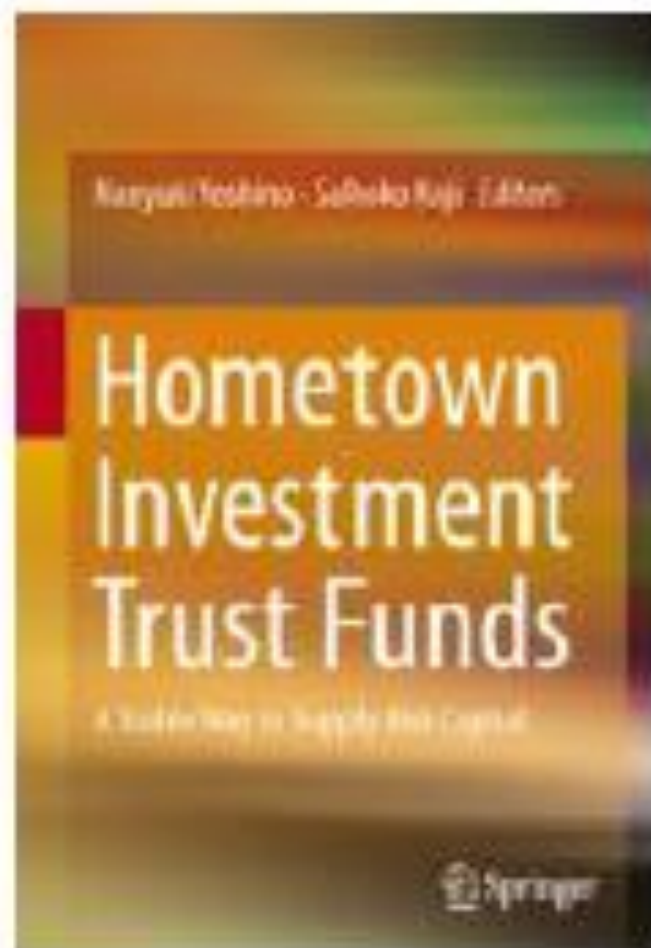
Hometown Investment Trust Funds

Regional financing to Riskier Borrowers

1, Bank Loans to relatively safer borrowers

E-Finance, E-Fund





Hometown Investment

A Stable Way to Supply Risk Capital

Yoshino, Naoyuki; Kaji, Sahoko (Eds.)

2013, IX, 98 p. 41 illus., 20 illus. in color.

Available Formats:

eBook

Hardcover

(gross) price

Examples of Trust Funds

by Internet in Japan; E-fund

1, Solar Power Panel

**2, Japanese Sake (=Japanese wine)
producers' fund**

3, Forest trust fund

4, Music trust fund

5, Wind Power Generator

6, Green Finance



Agricultural Funds

Beans and Wine



Hometown Investment Trust Funds

Startup Businesses





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

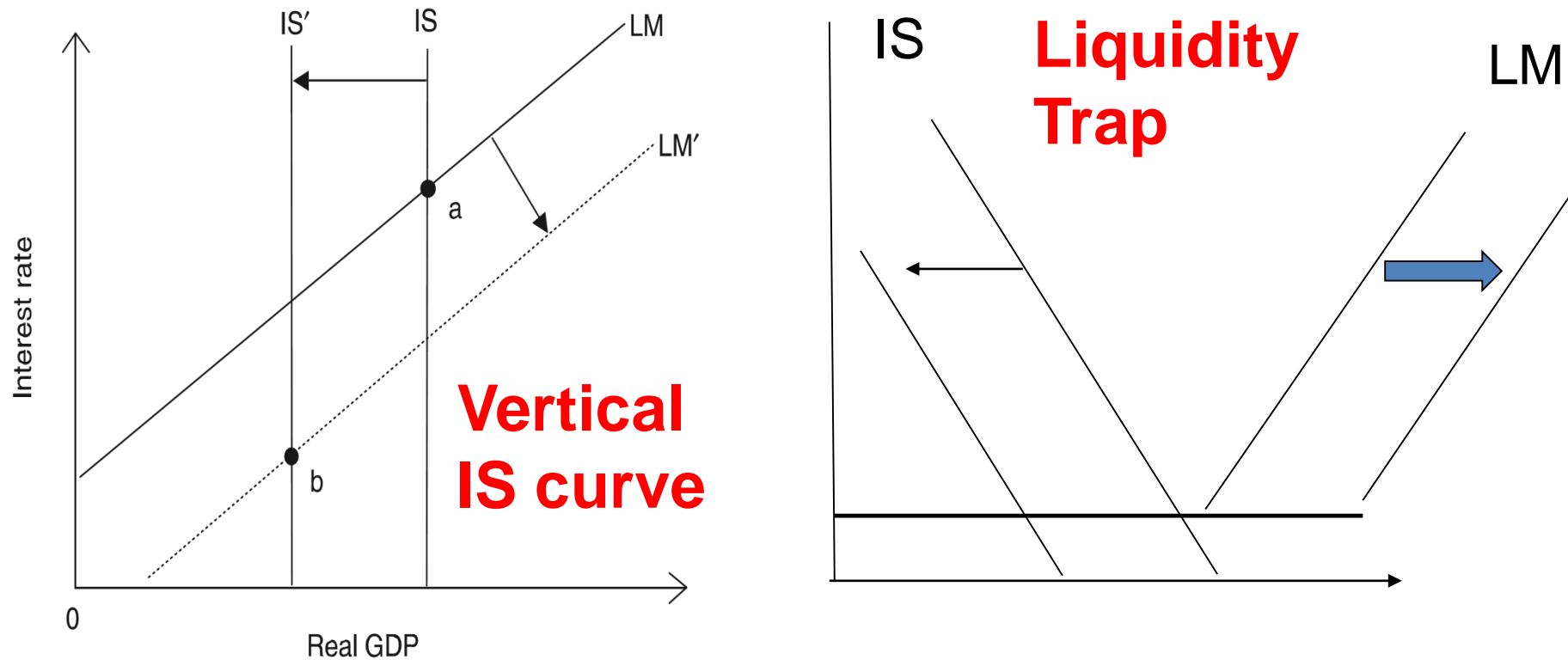
Insurance companies

Mutual Funds

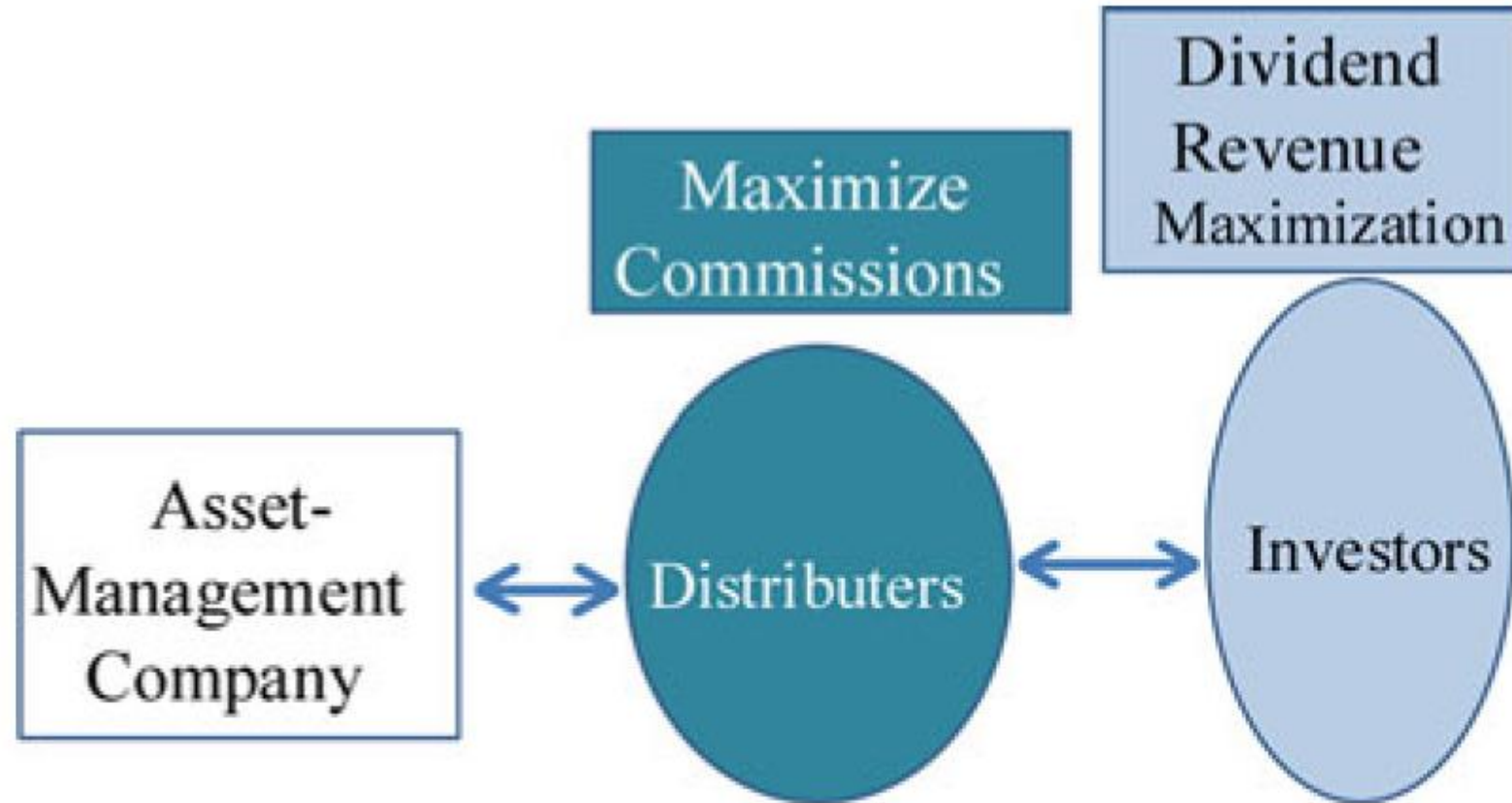
Causes of Japan's long-term recession

Problem of **Vertical IS curve** rather than Liquidity trap

Figure: The ineffectiveness of Monetary Policy in Japan



. Sales of Financial Products



YOSHINO and AOYAMA (2014, 2015)

Longer term Investment achieves higher rate of return

$A_0=100$

Gross return on investment

Net return of individual investors
 $\pi: A_t - A_0$

Sales Charges

Trust Remunerations

No transaction during the period

R 28.87	=	π 10.70	+	τ 2.45	+	ϵ 15.72
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Switching funds every 2.9 years

R 28.19	=	π 3.29	+	τ 9.86	+	ϵ 15.04
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Switching funds every 2.5 years

R 28.19	=	π 1.33	+	τ 11.82	+	ϵ 15.04
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Switching funds every 2.0 years

R 27.8	=	π -0.26	+	τ 13.41	+	ϵ 14.65
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Period 2000.1 ~ 2013.12

Purpose of holding mutual funds (Survey 2014)

USA	(i) 91%	Retirement
	(ii) 49%	Reduce taxable income
	(iii) 49%	Emergency
Japan	(i) 36.7%	No specific reason, Recommended by retailers
	(ii) 30.4%	Prepare for after retirement
	(iii) 17.7%	Asset Diversification

Period of holding mutual funds

(Survey USA2004, JPA2014)

USA	42%	Longer than 10years
	27%	6 to 10 years
	27%	1 to 5 years
Japan	40.7%	No specific period
	21.0%	3 years– 5 years
	14.8%	2 years– 3 years

Future Direction of Mutual Funds

- 1, Professional Investment by Asset Managers**
- 2, When domestic market is not well performed, invest into overseas' market**
- 3, To collect overseas' information**
- 4, Performance based fee**
 - Create incentive to make money by investors**
- 5, long term asset allocation**
- 6, Increase rate of return, efficient use of labor, capital and technology**
- 7, Performance based wage rate and work longer**
- 8, Create incentives to improve productivity**

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