

Towards Introducing an Identification Number System for Social Security and Taxation

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The Japanese government launched the Panel on Identification Number System for Social Security and Tax, and published its interim report towards introducing this system on June 29, 2010. In the past, several attempts have been made to introduce an identification number system in Japan. One attempt was to introduce a Green Card system, which was abolished before its introduction. The next move to develop a network system of Basic Resident Registers (known as *Juki*) and *Juki* cards led to lawsuits filed by residents in some prefectures and refusal to connect to the network by some municipalities, resulting in a sort of confusion regarding the system. In another attempt, the aim was to develop social security cards that integrate pension account books, health insurance cards and nursing care insurance cards. This plan is now pending because of a screening review of budget requests.

When we look at the United States, Sweden and South Korea, we find that their systems of social security and tax ID numbers are significant and are bringing about many advantages. ID numbers are used extensively for tax declaration and tax return procedures, and are shared by multiple administrative bodies responsible for the social security system for purposes such as identifying individual income, confirming contribution payments and adjusting overlapping benefits. Use in the private sector has also expanded. For example, ID numbers are used for personal identification at the time of employment and for credit information systems. As such, the systems have proved to be greatly advantageous in terms of accuracy and efficiency for companies and financial institutions in conducting their business operations.

On the other hand, there are increasing concerns over the government's management of personal information and risks such as information leakage, forgery and spoofing. In the US and European countries, laws and regulations are in place that stipulate the rights of individuals to control their personal information, and legal systems and mechanisms to protect such rights have been established. A third-party organization oversees both the public and private sectors to ensure the security of personal information and supervises its use.

When consideration is given to the improvement of convenience by the promotion of the e-government program and the impact that the ID number system would have on the private sector, it is essential to verify the cost effectiveness of an identification number system for social security and taxation. There must be some mechanisms that enable the creation of advantages whereby the initial investment costs as well as regular operating costs incurred by both the government and the private sector can be recovered.

I Studies on an Identification Number System for Social Security and Taxation

1 Moves to introduce an identification number system for social security and taxation

Currently, the Japanese government is studying the integrated reform of social security and tax systems so that priority can be given to the support of persons who are truly in need of help. As part of these efforts, discussions are under way on the introduction of an ID number system for social security and tax programs principally for the following purposes.

- Enhancing social security programs to support persons who are truly in need of help
- Ensuring fairness in terms of the burdens borne by citizens
- Improving citizens' convenience

The need to introduce a single numbering system applicable to both social security and taxation was stated in “FY 2010 Tax Reform (Main Points)” published by Japan's Ministry of Finance in December 2009, which called for reaching a conclusion within one year. Based on this framework, the first meeting of the Panel on Identification Number System for Social Security and Tax (chaired by Prime Minister Naoto Kan) was held in February 2010 with the National Policy Unit of the Cabinet Secretariat functioning as the secretariat of this panel. The panel's members included representatives from the Cabinet Secretariat, the Ministry of Finance, the Ministry of Health, Labour and Welfare and the Ministry of Internal Affairs and Communications. On June 29, 2010, after five meetings where discussions were held by its members and specialists expressed their opinions, an interim report entitled “Identification Number System for Social Security and Tax: Options from Three Perspectives (Toward a Numbering System that Protects the Rights of the Public)” was published to seek public opinion. These options are listed below.

- Options I: Options from the perspective of “advantages” to citizens and “risk and cost”—defining the scope of system use
- Options II: Options from the perspective of accuracy and safety—defining the system design
- Options III: Options from the perspective of protecting privacy—ensuring the protection of privacy

This report also estimated the initial cost required to develop the system as well as the preparatory period before the start of system operation. The estimated initial

cost to be incurred on the government side is between ¥400 billion and ¥610 billion, and the projected minimum preparatory period is three to four years, indicating that the introduction of the identification number system is a major undertaking in establishing a basic social system.

In studying the identification number system that will obviously have a major impact on all corners of society, this paper reviews past attempts to introduce similar systems and looks at cases in other countries. Based on these cases, it discusses major points that must be considered as well as the steps that must be taken in introducing this system.

2 Issues revealed by past moves to introduce an identification number system

In the past, several attempts were made in Japan to introduce an identification number system involving all citizens for purposes such as social security and tax services. In 1980, an attempt was made to introduce a Green Card system (assigning IDs for taxation on interest income) for purposes such as managing a ceiling of the tax-exempt savings system for interest income known as “*maruyu*” accounts. Although a law was enacted for this system, enforcement of the law was postponed because of opposing opinions. In 1985, this law was repealed by a law enacted by the initiative of members of the legislature.

The next move involved the development of the Basic Resident Registers Network System (*Juki Net*)^{Note 1} with the aim of improving the efficiency of public services and enhancing services for residents. As for this *Juki Net*, because of concerns over the control of personal information by the government and the possible danger of information leakage, separate lawsuits were filed by residents in Osaka, Ishikawa, Aichi and other prefectures. In addition, some local municipalities refused to connect to the network. The result was a sort of confusion regarding this system.

In another attempt, the Ministry of Health, Labour and Welfare played a central role in introducing social security cards that integrate pension account books, health insurance cards and nursing care insurance cards during fiscal 2011. However, this plan is now pending because of a screening review of budget requests that was initiated by the current ruling Democratic Party of Japan. During this screening review, a need to make adjustments among similar systems was pointed out, which includes social security and tax reform, an identification number system, and the issuance of “pension pass-books” that was pledged by the new administration (the Democratic Party of Japan) (Table 1).

These past attempts to introduce an identification number system in Japan revealed the following issues that must be addressed. As for the Green Card system,

Table 1. Past moves to introduce identification number systems in Japan

	Green Card	Basic Resident Registers Network System (<i>Juki Net</i>), <i>Juki Card</i>	Social Security Card
Purpose and outline	<p>Ensuring fair implementation of the tax-exempt savings system and appropriate taxation on interest and dividend income</p> <ul style="list-style-type: none"> • Issuing the card to those who apply for use of this system • Using the card as an identification card for use at banks and post offices • Indicating the upper limit of tax exemption on the card for each office • Indicating the card issue number in the payment record 	<p>Developing a nationwide database system storing personal identification information by networking resident registers with a resident register code used as a search key. The purpose of this system is to promote the convenience of residents and contribute to streamlined public services provided by the national and local governments</p> <ul style="list-style-type: none"> • Village, town and city governments send personal identification information to the prefectural government; prefectural governments send such information to designated information-processing organizations • The law and ordinances define organizations to which personal identification information is sent and the scope of use of such information 	<p>During fiscal 2011, introducing a social security card that integrates a pension account book, health insurance card and nursing care insurance card and that enables the confirmation of pension records</p> <ul style="list-style-type: none"> • Functioning as a basis for information access <ul style="list-style-type: none"> - Confirming one's own information, receiving notices electronically, confirming records of access to one's own information • Functioning as a basis for information sharing <ul style="list-style-type: none"> - Using only a single card for multiple purposes, improving the efficiency of public services, improving the efficiency of work to adjust benefits
History	<p>1980: A bill to partially amend the Income Tax Law to introduce the Green Card system passed the Diet and was promulgated</p> <p>1982: Opposing opinions arose requesting review of the Green Card system</p> <p>1983: Enforcement of the Green Card system was postponed for three years</p> <p>1985: The Green Card system was abolished</p>	<p>1999: The Basic Resident Registers Law was amended to enable the development of this network system</p> <p>2002: Start of the system operation for basic functions</p> <p>2003: Start of the system operation on a full-scale basis</p> <p>2008: The Supreme Court ruled that the <i>Juki Net</i> is constitutional</p>	<p>2007: Round-table conference on the social security card</p> <p>2009: Requesting a budget for the introduction of the social security card (this request is now pending because of a screening review of budget requests)</p>
Concerns and pending issues	<ul style="list-style-type: none"> • The system was intended to be used as a measure to prevent improper use of <i>maruyu</i> accounts • Concerns over the transfer of assets owned by wealthy people overseas 	<ul style="list-style-type: none"> • Concerns over information leakage (hacking) • Concerns over the management of personal information by municipalities • Concerns over the integration of personal information; opposition raised by some municipalities • Because of the concerns mentioned above, some municipalities refused to connect their registers to the <i>Juki Net</i> 	<ul style="list-style-type: none"> • The budget for this system can be a duplicate investment because of the pledge of the new administration (the Democratic Party of Japan) to start a similar system (issuing "pension passbooks") • There is a need to wait for the conclusion of discussions among government organizations about using a single number for pension, medical service, nursing care and tax programs

Source: Compiled based on materials published by the Ministry of Finance, the Ministry of Health, Labour and Welfare and the Ministry of Internal Affairs and Communications.

some experts point to the lack of adequate explanation to the public about the specific advantages of introducing the system. The *Juki Net* evoked strong anxiety about the protection of personal information. In addition to these issues, concerns were also expressed over cost effectiveness.

II Major Considerations in Introducing an Identification Number System for Social Security and Taxation

This chapter discusses the matters that must be considered in introducing an identification number system for social security and taxation. Japanese citizens and companies recognize the need for introducing this system because of an assortment of issues that must be dealt with including pension problems caused by the lack of records evidencing past employment, ensuring

fairness in the financial burden on individual households for social security and taxes and improving the efficiency of public services. Accordingly, the introduction of this system must be considered as a major reform of social systems. By drawing on Japan's past experience and referring to precedents in other countries, the government's related systems and associated activities in the private sector must be concurrently reconstructed to develop the system with focus on the following points.

- ① Explaining the significance and advantages of introducing an identification number system to the public in specific terms
- ② Giving priority to establishing the rights of individuals to control their personal information over the management of information by the government
- ③ Establishing links with e-government programs to use the identification number system effectively and efficiently

- ④ Verifying cost effectiveness both in the government and in the private sector

1 Explaining the significance and advantages of introducing an identification number system to the public in specific terms

The first point concerns presenting the specific advantages of introducing the system to the public. In this regard, it is effective to see how ID number systems are applied in other countries. In the US, Sweden and South Korea, ID numbers are widely used in the fields of social security and taxation as well as in other administrative fields. Table 2 outlines the features and utilization of the system in each of these countries.

In the United States, based on the Social Security Act of 1935 as the underlying law, the Social Security Number (SSN) was created in 1936 for the purpose of tracking the earnings of each individual for use in determining social security taxes. This number consists of nine digits. Initially, an SSN was issued in response to an application by an individual. After 1987, however, each state began to adopt a program in stages in which an SSN is assigned at birth. The Social Security Administration issues SSNs and administers this program. By using SSNs, the Internal Revenue Service and the Social Security Administration mutually check online the earnings of individuals as well as their payments of social security taxes.

Recent times have seen the expanded use of SSNs. Many government agencies use the numbers as personal identifiers; businesses use them to track an individual's financial information and validate social security numbers when hiring new employees by means such as using the online SSN verification service offered by the Social Security Administration. Now, it is no longer possible to consider either administrative work for social security programs and taxation or business operations by financial institutions without the use of SSNs.

Sweden uses personal identity numbers used in its population registration system, which dates back to the 16th century when parish registers were used to collect church taxes. The Swedish Tax Agency administers the population registers and issues personal identity numbers. The agency collects both taxes and social insurance contributions. Companies and financial institutions annually send the earnings information of individuals based on this number to the Tax Agency. Based on this information, the Tax Agency provides individuals with prior notices (preprints) of the tax amount due. In addition, the Swedish Population and Address Register (SPAR), which is a database management organization and for which the Swedish Tax Agency is responsible, administers data on individuals such as personal identity number, name, address, place of birth and date of birth based on population registers. In addition to

administrative agencies, private-sector companies can also use these data. The names and addresses of subject persons are provided based on the application made by a company. Companies use the data to send direct mail introducing products and services considered suitable for the subject individuals.

In South Korea, a resident registration number is assigned to each resident based on the resident registration system enacted in 1968. The Ministry of Public Administration and Security, which corresponds to Japan's Ministry of Internal Affairs and Communications, is responsible for the overall system. (This ministry was formerly known as the Ministry of Government Administration and Home Affairs, which was converted to the current one at the launch of the Lee Myung-bak administration). Local governments (cities, counties and districts) are responsible for issuing numbers and registration cards. Resident registration numbers are widely used for social security, taxes and other public services. The number is also used as a personal identifier in the private sector such as by financial institutions as well as for electronic commerce.

These three countries have adopted an integrated model in which a single number is used for social security and taxes as well as in various other areas. Unlike these countries, Austria uses sector-specific identification numbers. In Austria, separate ID number systems were adopted in each sector of social security, taxes and personal identification. In order to ensure the link-up of information across sectors and improve the efficiency of public services while maintaining separate number systems, the concept of a base number was introduced. The base number is used as a basis for ascertaining an area-specific personal number. The base number is stored only in the Austrian Citizen Card, which was created in February 2002. The card was adopted as a means of providing various authentication functions to citizens. A third-party organization, which is a joint venture in the private sector, provides the authentication service.

In all four countries, the identification number system is already available in one form or another, and has been widely accepted by the public. In particular, recent years have seen more efficient administrative procedures in preprints and tax collection and improved public services through information sharing such as in filing tax returns, refunding taxes and providing social security benefits. In the private sector, financial institutions increasingly use the ID number for their business operations (checking credit information). In Japan, the introduction of the identification number system should be considered in such a way that the system plays an important role in achieving proper income redistribution, enhancing public services and improving the efficiency of business activities in the private sector.

Table 2. Overview of identification number systems in the US, Sweden and South Korea

	US	Sweden	South Korea
Name	Social Security Number (SSN)	Personal identity number (PN: Personnummer)	Resident registration number
Number format	Nine-digit number (consisting of area number, group number and serial number)	Ten-digit number (consisting of date of birth, place of birth and checksum digit)	13-digit number (consisting of date of birth, gender and century in which the person was born, place of birth and checksum digit)
Year of introduction and purpose	1936 (the Social Security Act was enacted in 1935) Track the income history of an individual for use in determining social security tax	1947 The system was first introduced in the 16th century to improve the efficiency of collecting church taxes; currently, the number is used extensively for taxation, social security and other public services based on population registration	1968 The system was introduced to register an individual's residence and any changes in residence, promote the convenience and benefits of each individual's life, implement appropriate public services and ensure social stability and public order
People to whom numbers are assigned	Upon application, SSNs are assigned to US citizens and other individuals who are authorized to work in the US (not mandatory) *Since 1987, the Social Security Administration has been promoting the "Enumeration at Birth" program, which is currently under trial in cooperation with state governments	Numbers are assigned to all Swedish citizens and people living in Sweden more than one year; in principle, the number is assigned at birth; people who move to Sweden can apply for the issuance of a number when registering in the population register	Numbers are assigned to all South Korean citizens at birth (resident registration cards are issued to all people aged 17 or above)
Organization assigning and administering numbers	Social Security Administration (SSA)	Swedish Tax Agency (Skatteverket)	Ministry of Public Administration and Security (formerly known as the Ministry of Government Administration and Home Affairs), which administers the overall system
Fund source for issuing numbers and cards	<ul style="list-style-type: none"> All costs are covered by a budget allocated to the SSA No financial burdens on individuals 	<ul style="list-style-type: none"> All costs are covered by the budget (tax) allocated to the Tax Agency (The government is not responsible for issuing the ID card; individuals who need a card must separately apply at banks, post offices, etc. at their own expense) 	<ul style="list-style-type: none"> All costs are covered by a budget (tax) allocated to the Ministry of Public Administration and Security No financial burdens on individuals (an individual must pay for reissue of a card such as when the person loses the card)
Use in the public sector	<ul style="list-style-type: none"> Pension: Verifying benefit eligibility; sending social security statements Medical services: Verifying Medicare (government medical insurance) eligibility; adjusting overlapping benefits with Medicaid (government medical insurance for eligible low-income individuals and families); using the SSN as a patient identifier, checking insurance eligibility and billing for medical expenses at hospitals Other welfare services: Food stamps (food assistance program); extensively used by state governments for social security benefit eligibility screening and other purposes Taxation: Checking income tax payments by individuals; confirming consistency with other tax payments; applying for various tax deductions Other public services: Certifying birth, marriage, death, etc.; driver's license; student identification number; personal identification and authentication in public services as a whole 	<ul style="list-style-type: none"> Pension: Verifying benefit eligibility and applying for benefits; checking contribution payments; sending pension notices Medical services: Used as a patient identifier, for checking insurance eligibility and billing medical expenses at medical institutions; developing health databases Adjusting overlapping benefits by medical institutions, Commune (welfare), the Unemployment Insurance Board, the National Labor Market Administration and the National Board of Student Aid Adjusting overlapping benefits with employers (sick pay, sickness allowance) Taxation: Sharing information on earnings; the Tax Agency collects both taxes and social insurance contributions Other public services: Extensively used for personal identification and authentication in various public services overall Navet, which is an information sharing network among public agencies, is available 	<ul style="list-style-type: none"> The number is widely used by both government bodies and the private sector as a means of personal identification. In addition, the number is also used as a personal identification number and as a login ID for the e-application system of the e-government program Pension: Verifying benefit eligibility Medical services: Used as an ID number of an individual under the medical insurance number, which is assigned to each household Taxation: Used in the Korean Tax Integration System (TIS) to manage tax information of individuals and corporations, and as login IDs to file tax returns via a website
Use in the private sector (including cases where the number is used by some companies – not necessarily all)	No restrictions are imposed on use Used as an ID number by insurance companies; can be widely used for personal authentication, identification and credit history searches in various contracts; marketing	No restrictions are imposed on use Based on the Principle of Public Access, information stored in the population register database is, in principle, made public. Companies also use the number as a customer ID. SPAR provides the information to companies	No restrictions are imposed on use Used for personal authentication in various contracts; used by financial institutions to check credit histories; used as a customer ID and member ID by companies (especially member registration on websites)
Measures for protecting personal information	The Privacy Act governs the handling of personally identifiable information by federal agencies; federal laws such as the Social Security Act and the Internal Revenue Act and state laws are also applicable in each field and each state	The Personal Information Act (also known as the Personal Data Act) of 1998 and the Secrecy Act of 1980 govern the handling of personal information; these laws are applicable to both government agencies and the private sector. In addition, the Swedish Data Inspection Board supervises that authorities, companies, organizations and individuals comply with applicable laws	Currently, there is no law that governs the protection of personal information, and the establishment of such a law is under consideration. Provisions to protect personal information are included in laws such as the Resident Registration Act and the Framework Act on Social Security

Source: Compiled based on "Report on the Survey of Social Security Numbers, Etc. in Other Countries," January 2007, Nomura Research Institute.

2 Establishing a system to protect personal information (rights of individuals to control their personal information)

As indicated in the discussions held in the past about the launch of the identification number system, the second point relates to increasing concerns over the government's management of personal information, the government's use of such information for other than the intended purposes, and risks such as information leakage, forgery and spoofing. In Japan, no organization exists that oversees both the public and private sectors. In particular, the mechanisms that protect the rights and interests of individuals and that supervise public bodies are underdeveloped.

In other countries where identification numbers are increasingly used, laws and regulations are in place that stipulate the rights of individuals to determine when, how and to what extent their own personal information can be disclosed to others (the rights to control one's own personal information), and mechanisms to guarantee such rights have been developed.

Specifically, based on applicable laws, self-regulatory and independent organizations have been established to guarantee the rights. The organizations act to ensure compliance with applicable laws, audit, investigate and provide remedies, guidance and public education with respect to the protection of personal information. They also have authority to inspect and supervise. In European Union (EU) member countries, pursuant to the Data Protection Directive, a third-party organization has a certain level of supervisory authority over both the public and private sectors.

In the UK, a third-party organization was established when the Data Protection Act 1984 was enacted. Subsequently, in 1998, this Act was revised to be consistent with the EU Data Protection Directive. At the same time, the functions and authority of the organization were reviewed. In 2001, the organization became the body that administers the Freedom of Information Act 2000, and its name was changed from the Data Protection Commissioner to the Information Commissioner. The Information Commissioner's Office (ICO) oversees operation of the Act. The Information Commissioner has authority over the processing of complaints, supervision, information disclosure, involvement in legislation, dissemination of related information and education.

The system adopted in the United States is similar to that in Japan because supervisory functions are dispersed. However, within the framework of protecting consumers, the Federal Trade Commission's (FTC) Bureau of Consumer Protection oversees private-sector companies and deals with citizen's complaints. As such, the Bureau partially fulfills the role of a third-party organization.

With respect to the control of one's own information as related to the identification number system, Japan

should also act to foster the consciousness of individual rights through public education and establish a third-party organization that has supervisory authority and is entitled to impose penalties.

3 Need to establish links with e-government programs so as to use the identification number system effectively and efficiently

The third point concerns that ID numbering systems in other countries are linked with e-government programs. As in the cases of the three countries described in Section 1 of this chapter, in addition to sector-specific use such as in the fields of social security and taxation, identification number systems have made their way into other fields such as being used for a variety of public services to improve work efficiency and by financial institutions through linkage with sector-specific numbers.

In South Korea, for example, the Promotion of Digitalization of Administrative Work for E-Government Realization Act (E-Government Act) requires that Korean administrative bodies:

- ① Shall not require applicants to submit matters that can be electronically confirmed among administrative bodies (Article 10)
- ② If it is possible to receive reliable administrative information from other administrative bodies, shall not separately collect the same information (Article 11)

The Administrative Information Sharing Center was established as a government-wide organization that distributes information on individuals among administrative bodies safely and efficiently. Korean citizens can see records of access to their own information by administrative bodies through the G4C (Government for Citizens) Civil Service Innovation System. In addition to administrative and public agencies, financial institutions are also connected to the center where, for example, they inquire about resident registration information for the purpose of personal identification at the time an account is opened. In this way, South Korea ensures the sharing of administrative information to improve citizen convenience.

In Austria, as described in Section 1, separate ID number systems were adopted in each sector such as social security and taxation. To ensure the linkage of information across sectors and improve the efficiency of administrative work while maintaining separate number systems, an area-specific personal ID (bPK) is generated for 36 different administrative procedure areas based on a base number, which was generated from a unique number (ZMR-Zahl) in the Central Register of Residents (CRR).

Austrian citizens apply to an insurer, a financial institution, etc. to include the base number and the

authentication function in existing IC cards such as social insurance cards and bank cash cards. The base number is so designed that it cannot be stored in other than an IC chip of these cards. This mechanism ensures the personal control of one's own ID number in such a way that each citizen always carries and manages the number. However, possession of these cards by citizens is only less than 10 percent, indicating that the penetration of these cards remains an issue to be addressed. This low level of possession is attributable to the fact that an IC card reader must be installed to receive electronic authentication service, and that people are not so motivated to use this service because of the need to prepare a terminal even though it is part of the security measures.

Use in the private sector has expanded only on a limited scope such as use for opening an Internet bank account using the authentication function and for an electronic signature in an employment contract. Future widespread use of the ID number would require the expansion of usable devices such as enabling its use with mobile phones. In addition, extensive information links that contribute to the improved work efficiency of companies such as linking the ID number with address information (address change information) should be allowed.

In Japan, since 2000, active moves have been taken to promote the e-government program. Under e-Japan Strategy ^{Note 2}, the mechanism to authenticate individuals lacked the concept of overall optimization. The resulting separate authentication for each service provider constitutes a major bottleneck in the spread of online usage.

(1) Method of identifying specific individuals under the current e-government program and matters to be addressed

Under Japan's e-government program, the Japanese Public Key Infrastructure (JPKI) is currently used for personal identification based on an electronic certificate (registering name, gender, date of birth and address with an electronic signature) stored in the *Juki* card. Specifically, when an electronic application is made, a card reader is used to read the content of an electronic certificate stored in the *Juki* card, and an electronic signature is attached to the application form. However, each administrative body uses different methods of personal identification (for example, the national tax electronic declaration/payment system (e-Tax) requires a user identification number). One of the reasons for such different procedures is that an electronic signature is simply considered as a "signature" and it is not possible to use it for "authentication."

Accordingly, users must acquire and manage an ID and password for each administrative body/service, which hinders convenience. In addition, a user must have a *Juki* card and an electronic certificate (with an effective term of three years) and purchase and install an IC card reader. Furthermore, because administrative bodies do not have identifiers (numbers) to identify indi-

viduals stored in the database, the sharing of data with other administrative bodies/services is impossible, causing difficulties in avoiding vertically segmented services in related procedures.

(2) Direction of solutions

The introduction of the identification number system for social security and taxation provides a golden opportunity for the government to drastically review the method of authenticating a specific individual. In addition to this system, the following new mechanisms must be established.

- A mechanism whereby individuals can easily receive authentication from administrative bodies for general purposes on an online basis
- A mechanism whereby administrative bodies can identify a specific individual when establishing links for back-office operations

4 Verifying cost effectiveness both in the government and in the private sector

As discussed in Chapter I, the introduction of the identification number system that is now under consideration is a major reform of a social system infrastructure that involves both the government and the private sector. Accordingly, the fourth point relates to the assumption that cost effectiveness would vary greatly depending on the design of the system and that of specific procedures. The interim report published in June of this year indicated the initial investment required for system development on the government side. However, it did not specify the methods ^{Note 3} of notifying and distributing ID numbers, and did not include the cost for related clerical work. In addition, it did not clarify the impact on the private sector and associated costs based on specific examples of use.

Accordingly, by referring to the interim report and the materials about the social security number that were published by the Tax Commission and the Council on Economic and Fiscal Policy in the past, Figure 1 outlines probable organizations and their functions related to ID numbers.

With the launch of the identification number system, linkages would become necessary between organizations, such as the organization assigning numbers, organizations that share such numbers, organizations electronically issuing such numbers to individuals and third-party organizations, and tax authorities and social security organizations. Upon establishing these linkages, the items of initial cost for each function would include the expenses for system development and terminal installation as well as the expenses for procedures such as issuing numbers and accessing numbers. The regular operating cost would include the expenses for system operation, the expenses for application and notification

procedures and other operating expenses (when a new organization is established) (Table 3).

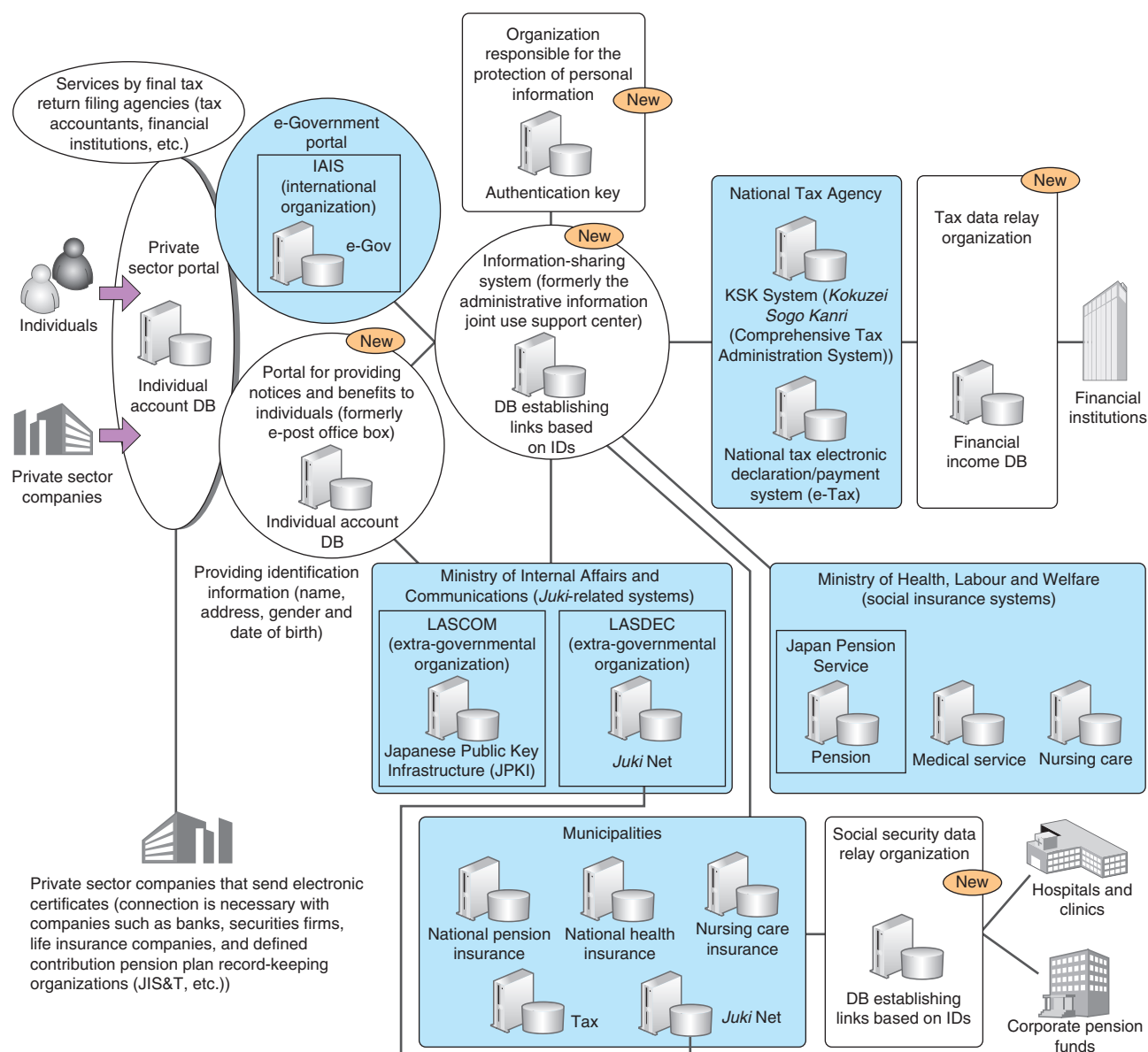
For example, in the case of financial institutions, a cost is incurred for accessing numbers ^{Note 4}, reporting transactions ^{Note 5} and confirming address changes. Accordingly, in order to facilitate system penetration, incentives should be provided to users to report their numbers to financial institutions, and an advantageous scheme should be established for financial institutions so that they can cover the expenses associated with accessing numbers, reporting transactions, etc.

Accordingly, it would be useful to estimate economic benefits based on specific use cases. In the private sector, for example, financial institutions submit legal records including the ID number to customers and tax authorities by calculating the total payment based on the ID

number as a means of personal identification. In such a case, if the system of the organization assigning the ID number provides information such as address changes, sending the record to a former (obsolete) address can be prevented and the time and labor to determine a new address can be eliminated. In addition, if a legal system is established that enables such records to be sent electronically, and both the public and private sectors promote the system, major cost reductions can be realized.

For local governments to benefit from the ID number system, information must be shared efficiently because decisions are often made on the payment of benefits and subsidies based on taxable income and family information such as whether there are any dependents and whether they live together. As such, the scope of system applications and use policies must also be considered

Figure 1. Probable organizations and functions related to the identification number system for social security and taxation



Notes: DB = database, IAIS = International Association of Insurance Supervisors, ID = identification, LASCOS = Local Authorities Satellite Communications Organization, LASDEC = Local Authorities Systems Development Center, JIS&T = Japan Investor Solutions & Technologies.

Table 3. Probable expense items associated with the introduction of the identification number system

Organization's function		System-related costs (billion yen)		Back-office costs	
Name of organization	Functions	Initial cost	Operational cost	Cost for notification and distribution	Other back-office costs
Organization assigning ID numbers	Assigning and administering ID numbers, providing notices	20 – 30*1	Unknown	Distributing ID numbers	Organization operating costs
Information-sharing organizations/networks	Cost required for information sharing	50 – 70*1	Unknown	—	Organization operating costs
	(Of the above, cost for authentication service systems)	6*2	0.6	—	
	Portal for providing benefits and notices to individuals	30*2	3		Organization operating costs
Tax authorities (National Tax Agency, municipalities)	Tax agencies	60 – 130*1	Unknown	Cost for sending notices to subject individuals (in case of preprints)	—
Social security organizations	Social security organizations (insurers, etc.)	70 – 80*1	Unknown	Cost for reissuing an insurance card	
Third-party organization	Organization responsible for the protection of personal information	Unknown	Unknown		Organization operating costs (around ¥1 – 5 billion)
	Total on the government side:	236 – 346 or more			
(Private sector) Tax reports	Related expenses incurred by financial institutions	Unknown	Unknown	Procedures to access ID numbers; sending reports	—
Medical institutions	Systems, networks and terminals of medical institutions	38*2 7 42	4 72 Unknown		—
Individuals	Purchasing terminals, etc.	Unknown	Unknown	—	—
	Total on the private sector side	87 plus some additional costs	76 plus some additional costs		

Source: *1: National Policy Unit, "Identification Number System for Social Security and Tax: Options from Three Perspectives (Toward a Numbering System that Protects the Rights of the Public)," 2010. *2: Council on Economic and Fiscal Policy, "Shakaihoshō bango' ni kansuru jitsumuteki na giron no seiri ni tsuite (Practical Discussions on the 'Social Security Number')," 2006.

from the perspective of cost effectiveness in introducing the ID number system respectively in the public and private sectors.

III Steps towards Introducing an Identification Number System for Social Security and Taxation

While we have looked at major points to consider in introducing the identification number system for social security and taxation based on cases in other countries, this chapter discusses the specific steps necessary towards system introduction.

(1) Activities based on national consensus

First, as described in Chapter II, it is necessary to form a national consensus on the significance of introducing a numbering system, its effects and specific concepts regarding cost effectiveness. For this purpose, the government should be prepared to provide easy-to-understand explanations for the system's significance, its advantages, resulting reductions in administrative costs and the mechanism protecting personal information. Specifically, the explanations should focus on the purposes of introducing a numbering system. As described in Chapter I, for the purpose of "enhancing social security programs to support persons who are truly in need of help," the system is to be introduced as part of the reform of various systems (social security system, taxation system, etc.) and at the same time to track

information about an individual’s income and to share other personal information. In addition, all factors such as the significance, advantages and mechanism protecting rights to privacy must be defined within the government and must be made public.

(2) Overall design and introducing the system starting from fields with higher priority in terms of urgency and effectiveness

In promoting the use of ID numbers and the e-government program, upon preparing the overall design and concept, introduction of the system should start from the areas where the effects that fulfill the intended purposes can be expected at the initial stage. For example, as shown in Figure 2, the system should first be used in the fields of taxation and social security where almost all people are involved (to be used for making applications, providing notices, the sharing of information by administrative bodies and the sharing of information in the private sector such as by companies and financial institutions). Subsequently, as optional services, use of the ID numbers can be expanded to wide-ranging public services including medical and nursing care services such as use for electronic medical records.

(3) Expanding awareness of individual rights to control one’s personal information

Along with the study of introducing a numbering system, measures must be taken to publicize the mechanism by which the rights to personal information are protected and to provide education about such rights.

(4) Institutional support during a transitional period (for activities such as accessing ID numbers, reviewing accounts and reporting)

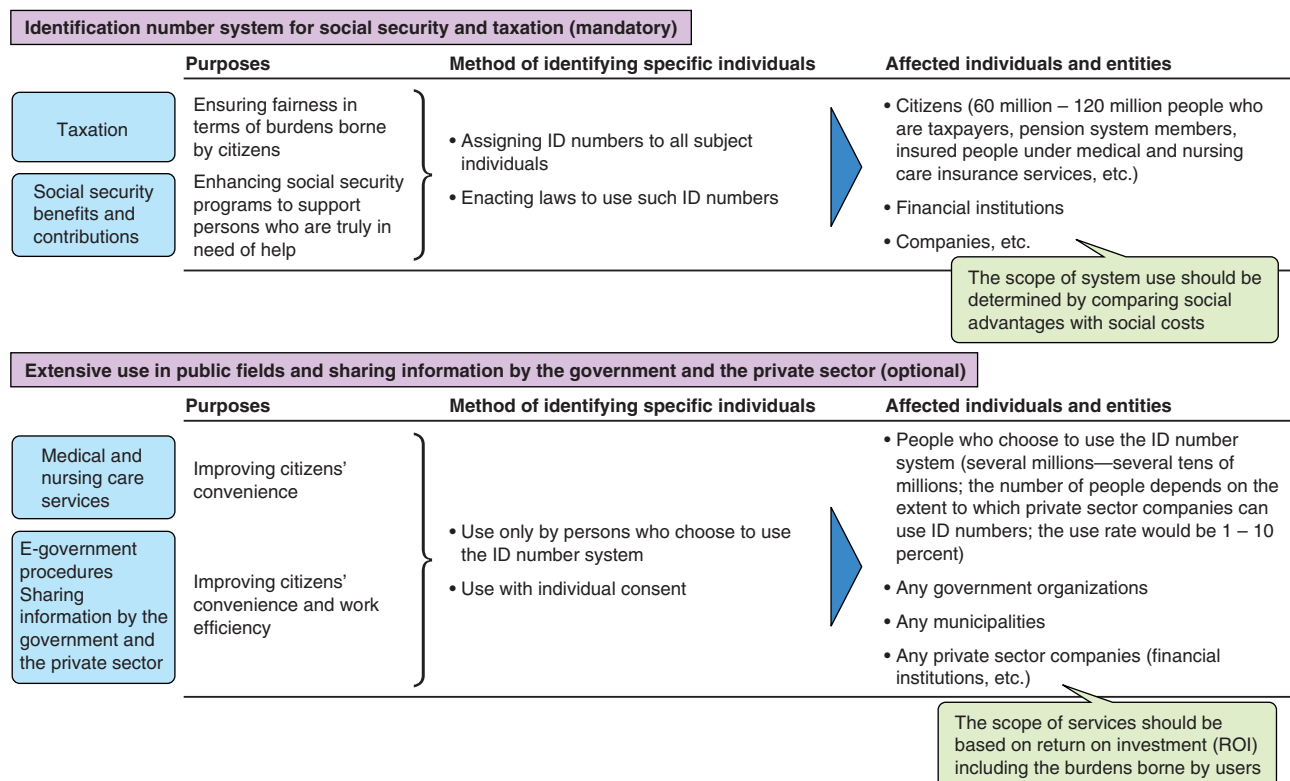
The launch of an identification number system would first require the assignment of ID numbers by the government. However, this action alone is not sufficient for the system to be on the right track. Financial institutions and companies that are required to report information on transactions and income in their work that is related to taxation and social security must be able to access and manage ID numbers as a means of personal identification. Accordingly, a roadmap that defines the necessary preparations and actions should be developed not only for government agencies but also for the private sector. Based on this roadmap, institutional support should be provided to the private sector during any transitional period as a means of ensuring smooth system implementation.

(5) Continuous verification of cost effectiveness

Recently, wasteful and unnecessary public work projects in Japan have been subject to people’s criticism. To avoid the occurrence of such situations, cost effectiveness should be verified continuously based on realities such as actual use situations, rather than strictly following the initial plans as scheduled. By so doing, the system design and specific procedures must be reviewed as appropriate.

While this paper outlines the major points that should be considered at the present stage in any efforts to introduce an identification number system for social security

Figure 2. Scope of areas where an identification number system for social security and taxation is introduced and applied



and taxation in Japan, the author hopes that the paper could also contribute to any studies made towards introducing such a system. Jointly with colleagues, the author will continue research on this matter to provide information and suggestions to achieve an identification number system, which will become an essential facet of social system infrastructure.

Notes:

- 1 Pursuant to the Basic Resident Registers Law, a nationwide database system of storing personal identification information was developed by networking resident registers with a resident register code used as a search key. The purpose behind the development of this system was to promote the convenience of residents and streamline the public services provided by the national and local governments. Personal identification information consists of four items—name, address, date of birth and gender, a resident register code number and any changes to that information.
- 2 This is the national IT strategy that was launched by the government in 2001. This strategy aimed to establish an environment where the private sector, based on market principles, could exert its full potential and make Japan one of the world's most advanced IT nations within five years by building an ultra-high-speed Internet network and providing always-on Internet access at the earliest possible date; establishing rules on electronic commerce; achieving electronic government; and nurturing high-quality human resources for the new era.
- 3 Methods are different depending on the level of personal identification at the time the ID numbers are distributed such as sending them by postal mail or distributing them at counters in municipal offices.
- 4 As of March 31, 2009, the number of cash cards issued by depository financial institutions and Japan Post Bank was 472.82 million. While it is not clear to what extent financial income must be identified, procedures for personal

identification and to access numbers must cover nearly 500 million accounts.

- 5 With respect to the transaction report, securities firms and life insurance companies are currently required to submit legal records. According to materials published by the National Tax Agency, in the area of financial transactions, 57.93 million open investment trust profit payment records (securities firms), 11.50 million future transaction payment records (securities firms), 4.61 million payment records for stock sales (securities firms), 9.73 million lump-sum benefit payment records under life insurance contracts, etc. (life insurance companies), and 8.22 million pension benefit payment records under life insurance contracts, etc. (life insurance companies) were submitted in one year between July 2008 and August 2009.

References:

- 1 National Policy Unit, "Identification Number System for Social Security and Tax: Options from Three Perspectives (Toward a Numbering System that Protects the Rights of the Public)," June 29, 2010.
- 2 National Policy Unit, "Panel on Identification Number System for Social Security and Tax, Document No. 4—Material related to national taxes presented by the Ministry of Finance," February 22, 2010.
- 3 Material presented by the Cabinet Secretariat to the Council on Economic and Fiscal Policy, "*Shakaihoshobango' ni kansuru jitsumuteki na giron no seiri ni tsuite* (Practical Discussions about the 'Social Security Number')," September 22, 2006.

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