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Democratizing securities ownership with a universal basic account

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Pandemic has precipitated some developments that may not have happened otherwise

The global COVID-19 pandemic has spurred change across virtually every facet of society and the economy, from personal values to societal norms and from corporate business models to how people do their jobs. Such change extends even to the policymaking realm. A case in point is a bill submitted to the Diet in June that would link Japanese residents' national ID number to their savings account (one account per person) to enable the government to distribute cash benefits to individuals more efficiently. The bill was drafted in response to lessons learned from the population-wide distribution of pandemic relief benefits of ¥100,000 per person. While the bill could be criticized as long overdue or a “no-brainer,” use of national ID numbers has been tightly restricted, mostly because of privacy concerns. The government was consequently prohibited from directly utilizing the ID numbers to distribute the pandemic relief benefits. Were it not for COVID-19, the bill likely would not have been drafted. In this sense, the pandemic undeniably created a potential breakthrough for the national ID number program. Similar developments directly or indirectly catalyzed by the pandemic include growth in telemedicine and acceleration of the trend toward online education.

Energy behind discontinuous change

Such developments underscore the magnitude of the impulse toward discontinuous change that has been unleashed by the pandemic. The energy generated by this impulse must be channeled more broadly and, most importantly, constructively. The current wave of discontinuous change is conducive to greater receptivity to new ideas and ways of thinking. The current environment thus affords more latitude to experiment with completely new approaches to hitherto intractable challenges and impasses, including backcasting unconstrained by either conventional wisdom or existing rules and institutions. Such experimentation should be practiced not only where COVID-19 has directly exposed shortcomings, like the national ID number program and healthcare sector, but also across a broad swath of other sectors and fields.

Based on such a mindset, this paper seeks to offer a proposal from a fresh perspective on a policy issue that is one of my personal research interests:

promoting investment in securities such as equities and investment trusts to rebalance the composition of Japanese households' financial assets, which is currently heavily skewed toward saving deposits. This policy aims to drive a "shift from saving to investing (or wealth-building)," a slogan that has been a rallying cry in policy circles for over two decades.

With the advent of NISAs (Nippon Individual Savings Accounts) and iDeCo (individual defined contribution) plans in recent years, many people probably think the mission has been accomplished in terms of programs to encourage investing. A case could be made that no further policy intervention is warranted beyond expanding private service offerings and giving individual investors more choices. However, NISAs and iDeCo plans have fallen short of expectations in terms of engendering a shift from saving to investing, as explained below. In light of such, policy action from a fresh perspective is needed in my opinion.

This paper is a working draft that mainly presents concepts and leaves much to be refined later, including issues like feasibility and compatibility with existing programs and infrastructure. I hope to flesh out my proposal into a detailed blueprint in response to feedback and critiques from a wide audience.

New Normal adds new dimension to securities investment's value

Why is it important for the Japanese public to shift from saving to investing in the first place? One reason is economic/financial. More than half of Japan's ¥1.8 quadrillion of household financial assets is sitting in savings deposits. If these funds were reallocated to equities or investment trusts, Japanese households could reap the fruits of corporate earnings growth and economic growth not only in Japan but globally. In Japan, income from assets accounts for a mere ~5% of household disposable income. Laying the groundwork for households to benefit more readily from economic growth by adeptly deploying their financial assets is an urgent imperative. Secondly, overconcentration of capital in savings deposits imposes a heavy medium/long-term burden on the financial system. Rectifying this imbalance would be systemically beneficial.

While these two points have long been recognized, the mindset that monetary value is the be-all and end-all is changing even in the investment world, as exemplified by the recently growing popularity of ESG investing. This trend may gain impetus from the New Normal that ensues from the pandemic, meaning

that individual investors would increasingly find value that goes beyond monetary returns. Such value might take the form of increased opportunities to be able to express one's values or commitment to addressing societal issues through securities investment.

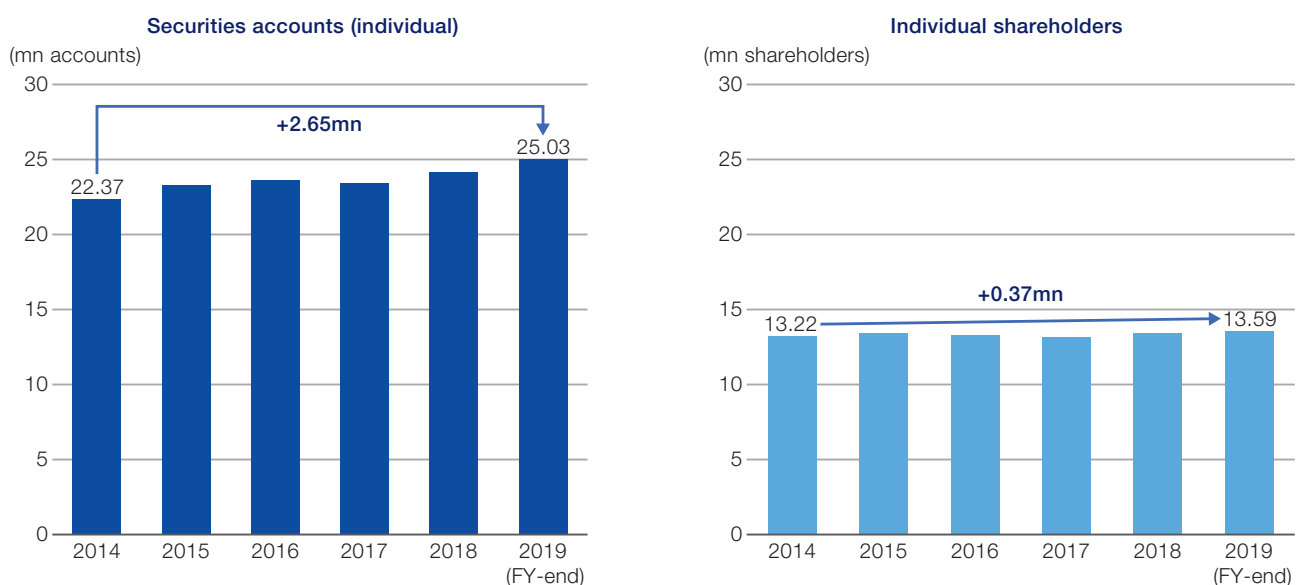
Additionally, securities ownership tends to lead to broader awareness of the economy and politics. Growth in the absolute number of people broadly interested in societal and political issues should elevate society as a whole in a way that goes beyond upgrading narrowly defined literacy (i.e., utilitarian knowledge and skills).

The shift from saving to investing has hitherto been framed in terms of monetary value and the financial system. The time is now ripe to reframe it as a policy priority that should be promoted inclusive of non-monetary value also.

Investing public not growing despite tailwinds

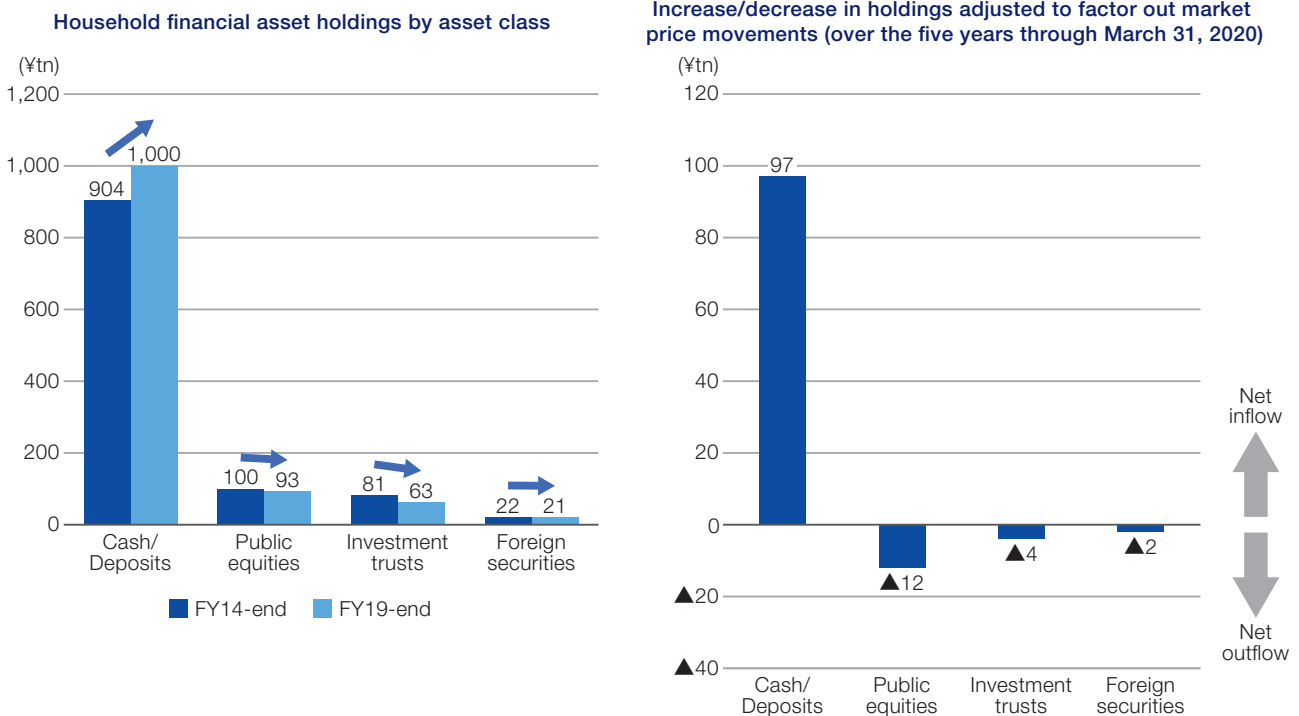
However, the investing public does not appear to have grown over the past five years according to multiple metrics. Not only has growth in the individual-shareholder population fallen short of growth in the number of securities accounts, households' aggregate savings deposits continue to grow while their aggregate investments in risk assets have been shrinking on a net basis (Exhibits 1-2).

Exhibit 1: Securities accounts (individual) and individual shareholders



Source: NRI, based on Japan Securities Dealers Association's Composite Balance Sheet of Regular Members and Number of Customer Accounts and Japan Securities Depository Center's Monthly Statistics

Exhibit 2: Changes in household financial asset holdings



Source: NRI, based on BOJ's Flow of Funds Accounts

Over the past five years, NISAs and iDeCo plans have rapidly gained prevalence and FinTech companies have rolled out many new services that are readily accessible to even neophyte investors, including online trading apps, robo-advisors and investment accounts funded with reward points. Moreover, the last five years have generally coincided with an equity bull market, thanks largely to Abenomics.

Despite this rare confluence of tailwinds in the form of new tax-advantaged investment vehicles, new private-sector services and equity market appreciation, the investing public has not grown over the past five years. Such a lack of progress even with the benefit of multiple tailwinds suggests that new, unconventional approaches are needed.

The basic account concept: why not open a securities account for everyone?

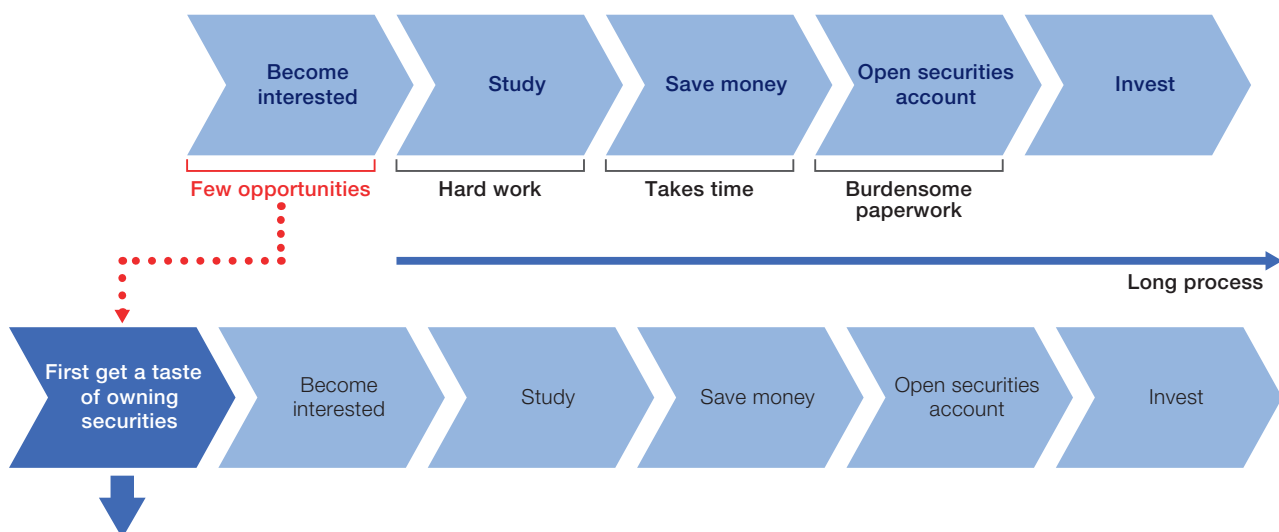
From such a perspective, what I propose is providing everyone in Japan with a securities account.

For individuals with no investment experience, becoming an investor typically entails four steps: (1) becoming interested in investment in response to some motivation, (2) gaining knowledge by studying, (3) saving money and (4) opening a securities account. These four steps pose intellectual challenges and require effort. Their difficulty is often cited as the reason that investing is not more widespread in Japan.

In contrast to the traditional four-step path to becoming an investor, my proposal is focused on expanding the investing public not by lowering the bar in terms of the knowledge or effort required but by creating an environment where anyone can first get a taste of securities ownership as a prelude to the other four steps (Exhibit 3).

Unlike regular securities accounts, however, the account I envision for neophyte investors would be a repository only. Existing securities accounts provide an integrated suite of three functions: buying, holding and selling. The buying and selling functions unavoidably entail the risk of the user incurring losses and the risk of the account being used illicitly, such as for money laundering. A regular securities account is consequently not a feasible option for a universal account for everyone.

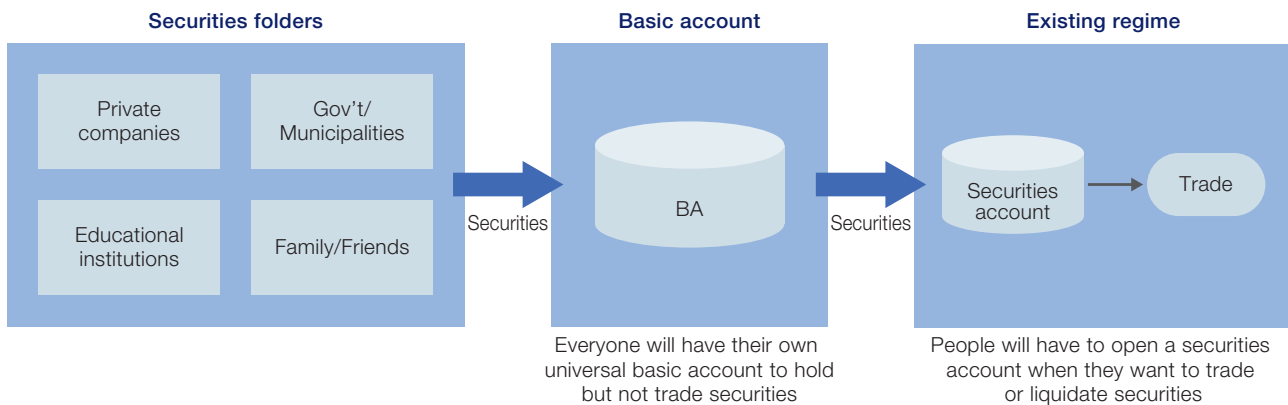
Exhibit 3: BA concept's focal points



Why not adopt a universal basic account to enable anyone to first experience securities ownership even without a securities account?

Source: NRI

Exhibit 4: How BAs would work



Source: NRI

In contrast, an account that is merely a securities repository with no ability to buy or sell would eliminate the risks associated with trading. I call such an account a “basic account” (BA) because it is stripped down to existing securities accounts’ most basic function alone (Exhibit 4).

The UK’s National Employment Savings Trust (NEST), a private pension plan, automatically enrolls employees of companies that do not have their own corporate pension plan. Its auto-enrollment feature is what is called a “nudge” in behavioral economics. Nudging seeks to naturally modify individuals’ behavior with environmental prompts instead of economic incentives. It has been applied across a wide range of policy domains. Although the NEST scheme and BAs are of course completely different in terms of design, they are both based on the concept of setting up an environment that subtly pushes individuals toward a certain objective.

What could BAs be used for?

I asked a number of experts and practitioners for input on how BAs could be used for if they were to become available. I have synthesized their ideas to come up with several specific use cases. I did so from an idealistic standpoint without taking into account existing rules or other constraints.

First, BAs could be used as an educational tool. For example, a school might deposit stock into every student’s BA as part of its curriculum. The students

could learn about how the economy or society works through online research on the companies they own in their BAs. Alternatively, they might take field trips to companies or manufacturing plants. BAs for this use case would be the investment version of a child savings account. While such a use case may seem far-fetched in the context of Japan's current educational system, Japanese schools are steadily digitalizing their curricula and focusing more on financial literacy. For example, the government has expedited its GIGA School initiative, which aims to furnish every student with a laptop computer or tablet, and added financial education to its national curriculum standards for high schools. The BA concept is highly compatible with such educational reforms' direction.

Second, BAs could be used as a receptacle for services provided by local municipalities to their residents. They would enable municipalities to issue municipal bonds to residents to commemorate milestones like the birth of a child or entry into adulthood or as a benefit for families with children or for incoming residents (such bonds would be analogous to JGBs issued in lieu of cash payments). Additionally, if the discount merchandise vouchers that many municipalities issue are digitalized, they could be issued and redeemed more conveniently via BAs. BAs need not be limited to securities holdings alone. Perhaps they should be promoted as a more generic receptacle for various assets, including even redeemable points issued by municipalities. The ability to deliver benefits or assets to their recipients instantly and on time is key.

Third, one market-savvy individual suggested that BAs could be used as a receptacle for ETFs purchased by the BOJ. With the BOJ still a long way from exiting its quantitative and qualitative easing program, this use case is of course merely a future possibility. That said, if BAs existed, the BOJ's ETF holdings could end up being broadly owned by the Japanese public in small allotments. Such a transfer of ownership to the public would definitely have less of a negative market impact than if the BOJ were to sell its ETF holdings itself.

Lastly, BA use cases are not confined to the public sector. Private companies could conceivably distribute small quantities of stock or investment trust units for free as part of an advertising or marketing campaign. Another possibility is the transfer of assets from parents or grandparents' securities accounts to their children or grandchildren's BAs.

Democratization of securities ownership and incubation of innovation

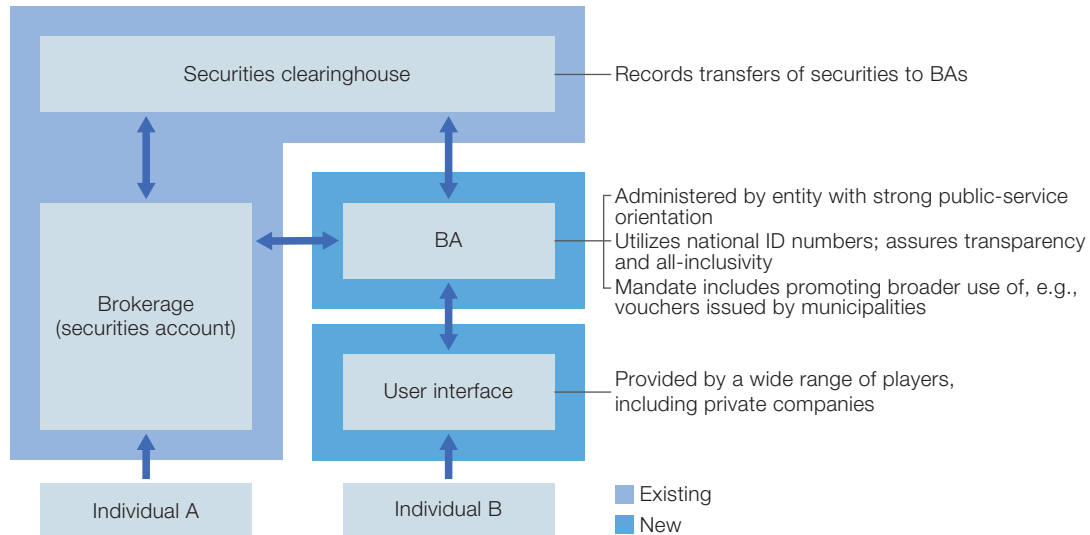
More important than these hypothetical BA use cases is that by giving everyone access to, and the means to hold, securities (even without buying them), BAs have the potential to make stocks, investment trusts and other securities ubiquitous, like electricity or tap water, for the Japanese public, not just a minority who have acquired knowledge through study. In other words, BAs should rapidly make securities ownership routine. At the very least, they have the potential to dramatically change the contours of everyday life by setting the stage for the emergence of imagination-defying new services and public policies.

It would therefore be a mistake to make assumptions on BA use cases and business models based on preconceived notions of how BAs should be designed or used and to then allow a consensus coalesce around those assumptions. Instead, BAs must be approached with openness to and anticipation of the potential for future innovations, at least in the initial design phase.

Issues to be addressed in designing BA program

Issues to be addressed in the process of turning the BA concept into a concrete program include the question of who will run the program. Because BAs would be a type of public good, the program would presumably have to be run by an organization with a strong public-service bent. However, there are so many possible combinations of potential oversight entities and organizational configurations that it would be premature to delve deeper into organizational specifics at this stage. In terms of functions, information on how much of which securities were transferred to whom will need to be shared between BAs (the receptacle) and incumbent securities brokers and securities clearing organizations (the BOJ for JGBs and the Japan Securities Depository Center for other bonds, equities, investment trusts, etc.). Additionally, with securities being transferred between accounts, taxation-wise transparency is obviously a prerequisite. Since BAs will automatically be set up for every member of the public, they ideally should be linked to the account holder's national ID number. Additionally, BAs' repository function should be distinct from the means by which information on their content is accessed. Various entities should be able to provide their own interfaces for BAs through an API or other means (Exhibit 5).

Exhibit 5: Relationship between BAs and existing infrastructure



Source: NRI

The broader the range of securities eligible to be held in a BA, the better. Although I have been emphasizing that BAs will solely be a securities receptacle/repository, they will actually also need to receive money such as dividends and fund distributions, documents such as shareholder general meeting notices and investment trust performance reports, and information, most notably market prices (Exhibit 6). Practical issues may need to be addressed on a step-by-step basis, with each step determined by what is feasible at that point in time. For example,

Exhibit 6: Issues likely to factor into BA program’s design

Type of securities	Issues
Single-name equities	<ul style="list-style-type: none"> ✓ Receiving dividends (money) ✓ Receiving shareholder general meeting notices (info)* ✓ Exercising shareholder rights (info)* ✓ Reflecting market prices in account balances (info) ✓ Updating holdings in response to corporate actions (e.g., mergers, stock splits, reverse splits) (info)
Bonds	<ul style="list-style-type: none"> ✓ Receiving interest/principal payments (money) ✓ Reflecting market prices in account balances (info)
Investment trusts	<ul style="list-style-type: none"> ✓ Receiving distributions (money) ✓ Receiving documents (e.g., performance reports) (info)* ✓ Reflecting market prices in account balances (info)
All types	<ul style="list-style-type: none"> ✓ Tax reporting (gift tax, income tax on interest/dividends) (info)

*Document forwarding will presumably be completely paperless

Source: NRI

it may be prudent to initially narrowly limit what securities can be held in BAs or partially restrict securities' rights while the securities in a BA.

From concept to blueprint

In this paper, I proposed a basic account concept as a new approach to expanding the individual investor population. While this concept appears to unambiguously fall within the realm of financial regulation, the design of the BA program's overall architecture falls squarely within the digital realm and determining how to use BAs will unavoidably entail a cross-disciplinary discussion that transcends finance. In this sense, the BA concept is in sync with the direction in which society as a whole is currently heading, including trends such as digitalization and de-siloization.

An important question to first ask, however, is the extent to which the vision of a society where anyone can hold securities even without a securities account and the significance of broader securities ownership can gain acceptance. Promoting a shift from saving to investing has been regarded as an obvious priority within the financial sector, including by me personally, but I feel there is still a large perception gap between the financial sector and society at large, as exemplified by the fact that only one in 10 Japanese owns stock individually (Exhibit 1).

As I stated at the outset, I hope the BA concept presented above is developed into a concrete blueprint, but societal buy-in will clearly be hard to obtain if the BA initiative is solely financially focused. Monetary value is of course important but, as I mentioned earlier, I believe the societal significance of expanding securities ownership lies in growth in the population of individuals who are interested in the economy and society and aware of economic and societal issues. While opinions may differ on this point, the fundamental question of how finance and investment can contribute to society as a whole cannot be avoided in any case. I look forward to constructive discussions both inside and outside the financial services industry.

about NRI

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