

NRI

How to make financial education more effective

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Executive Summary



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The Japanese government aims to upgrade financial education as one component of a plan, unveiled last November, to double households' asset-based income. One key issue in terms of achieving this objective is how to most effectively engage the 80% of Japan's adult population uninterested in investing. Creating an environment with built-in nudges could be an effective approach.

Plan to double asset-based income addresses long-standing issues

The Kishida Government released a plan to double household' asset-based income at a November 28, 2022, meeting of its New Capitalism Council¹⁾. The plan comprises seven planks, two of which have attracted the lion's share of attention: an overhaul of Nippon Individual Savings Accounts (NISA) and a plan to upgrade financial/economic education.

The NISA overhaul will rectify three shortcomings dating back to NISAs' inception. Specifically, it will simplify NISAs, eliminate time limits on NISA investment returns' tax-exemptibility and raise annual and lifetime limits on tax-exempt investment amounts. The government has proposed a new type of NISA with a lifetime tax-exempt investment limit of ¥18mn, a threefold increase from regular NISAs' current limit of ¥6mn. Additionally, the government has set five-year targets to double (1) the number of NISAs from 17mn to 34mn and (2) risk assets held in NISAs from ¥28trn to ¥56trn (acquisition cost basis). These five-year KPI targets should set in motion an effective PDCA (plan-do-check-act) cycle for the policy agenda aimed at transforming the Japanese public from savers to investors, though it would be better to set longer-term targets also. The goal of turning Japan into a nation of investors will allow households to broadly benefit from corporate and economic growth through ownership of equities and investment trusts. If such broad sharing of economic benefits is to be realized, the government's target of 34mn NISA holders is obviously not the ultimate endpoint. The government should present a vision of the final outcome it is targeting.

To upgrade financial/economic education, the government will establish a new

NOTE

1) See https://www.cas.go.jp/jp/seisaku/atarashii_sihonsyugi/pdf/dabiplan2022en.pdf for an English translation of the plan.

entity to promote such education through public-private collaboration. Slated to commence operations in 2024, the new entity will take over the functions of the Central Council for Financial Services Information (the administrative staff of which are BOJ personnel), widely disseminate financial education and train and certify unconflicted advisors, all with private-sector support. The government presumably aims to turbocharge its financial education push by establishing a central authority à la the UK's Money and Pensions Service and US's Financial Literacy and Education Commission. While a financial education framework takes shape in the form of the new entity, discussions of the program's content are expected to ramp up going forward.

How to engage the disinterested?

The most important point for the new entity's financial/economic education initiatives is how to engage people uninterested in investing. Non-compulsory education is the act of imparting correct knowledge to people interested in the subject matter. Regardless of how well-designed the curriculum or how large the certified advisor force, their effectiveness is contingent on an interested audience that wants to learn. In Japan however, not many people are interested in learning about investing nowadays.

According to Japan Securities Dealers Association estimates, only 20mn Japanese own securities, meaning that 80% of Japan's adult population have no investment experience. These 80% have remained on the sidelines despite the advent of NISAs and individual defined contribution retirement accounts, a FinTech boom and an Abenomics-driven equity bull market over the past decade. Although the masses with no investment experience include people with some degree of interest in investing, they have not yet availed themselves of tools such as tax-advantaged accounts and various investment services.

In sum, the key to transforming Japan from a nation of savers to a nation of investors through financial/economic education unquestionably lies in figuring out how to engage the disinterested on a mass scale. From such a perspective, designing the first step to arouse interest even among the disinterested is of crucial importance.

In addition to proposals to spur utilization of certified advisors via companies in the plan to double asset-based income, the FSA's Customer-Oriented

Business Conduct Task Force's interim report recommends gamification and entertainification to enhance financial/economic education. While both approaches may be effective at piquing interest among the disinterested, I personally am bullish on nudging as another approach.

Fostering an environment with built-in nudges

The direct approach to financial education (e.g., making tax-advantaged accounts available and straightforwardly communicating financial knowledge) is of course valuable, but it is not sufficient to effectively reach the disinterested. This is why I have long believed in the effectiveness of experiential exposure to securities ownership. Instead of counting on people to correctly understand securities intellectually from the outset, creating an environment where securities are a familiar part of everyday life like running water, TVs and cars could be a first step for people with no interest in investing.

To use an automotive analogy, most people grow up seeing and riding in cars on an everyday basis. By the time they are old enough to get a driver's license, they have unconsciously formed a mental construct of what a car is before studying to gain the specific knowledge required to pass the licensing exam (e.g., traffic rules, how engines work). In this analogy, the process of forming a construct through everyday proximity corresponds to the aforementioned first step in the context of people with no interest in investing. The question is how an analogous process can be incorporated into financial education.

Once such approach is called nudging in behavioral economics. For example, gifting stocks, investment trusts or other securities to a certain cohort of people would be an effective introduction to securities ownership. A simple experiment I conducted using an online survey found that even among people who ordinarily have no interest in securities investment and feel no need to invest in securities, a considerable number would be interested in gaining knowledge of or information on financial/economic matters and/or investing by coming into contact with stocks at no cost to themselves²⁾. This is just one anecdotal example, and I hope to see more discussion along such lines from the standpoint of how to employ nudging in a financial education context.

A May 2022 speech in London by Prime Minister Kishida catalyzed substantial progress in institutional reforms, with transformation of Japan from a nation of

2) An online survey of 4,000 individuals without a securities account asked the respondents how they would respond if given a free voucher that could be exchanged for stock through a financial institution. Forty-one percent of respondents normally uninterested in investing reported that they would exchange the voucher for the stock and want to learn the basics of investing and financial/economic matters.

savers to a nation of investors being revived as a core economic policy priority for the first time in quite a while. In the future, FY2022 will almost certainly be seen in retrospect as a watershed year. In the meantime, we must keep trying to figuring out how to engage the 80% of the adult population uninterested in investing to ensure the effectiveness of the Kishida Government's initiatives. On the heels of last year's major progress, discussions must keep moving forward without losing momentum.

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