

Chapter # 23

FINANCIAL EDUCATION AND ITS POLICY IN JAPAN

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ABSTRACT

Some developed countries conduct financial education in primary school. Financial assets which individuals can access increase and they are more and more necessary for individuals to have financial asset, so financial literacy for individuals is also needed to protect them. Accordingly, the importance of financial education from younger age is more and more necessary. However, the international standards and method of financial education haven't been established yet. That's why they differ from countries.

Buy the way, financial education has been conducted in Japan, and it shows great result these days. This study shows problems that financial education in Japan has had, and what is financial educational innovation that shows great result by international comparison. The result of this study can be a good example for countries that will conduct financial education in the future.

This study surveys financial education policy in Japanese government, then, previous studies, investigation reports and interviews about financial education cases that are done in Japanese educational institutions. Specifically, this study surveys financial education in U.S., U.K., Australia, and compares Japanese one with them. Also, this study surveys examples of financial education by public institutions and international institutions such as financial education project by OECD. This study shows as below.

- Financial education in Japan has problems about teacher's financial acknowledgement, educational materials and lack of relationship between actual life and financial economy.
- The collaboration between government and educational institution to solve problems above may cause financial educational innovation.
- The development of financial education in Japan can be a good example for countries which need financial education in the future.

Keywords: financial education, educational innovation, academia-industry-government cooperation, education policy.

1. INTRODUCTION

The importance of financial education has been increasing in modern economic society. Financial education in this thesis refers to the report (OECD, 2012) issued by OECD/INFE (International Network on Financial Education) on August 2012. The report defined financial education as *"the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice develop the skills and confidence to become more aware of (financial) risks and opportunities to make informed choices, to know where to go for help, and take other effective actions to improve their financial well-being"*. (OECD, 2012, p. 7). These days, we can see many developed countries have been doing financial education positively.

Japan, which has the second highest volume of household financial assets thinks financial education important similar to United States of America, which has the highest volume. In the 2000s, government mentioned about the importance of financial education and had been doing many kinds of actions in Japan. However, in an early stage of financial education in Japan, they can't evaluate educational effect positively, because the financial education method wasn't established. However, the method of financial education has caused in Japan, educational effect and reputations are increasing. The development and innovation in financial education in Japan can be a good model for other countries that are going to set about it.

Therefore, this thesis introduces new perspective and innovation of financial education in Japan, and conducts international comparison.

In this thesis, we tried sending out questionnaires but couldn't collect enough number of replay to analyze. Also, the information from financial associations, educational institutions and official institutions is allowed to refer for our study, but not allowed to show individual names and institution names on this thesis because it is not official answer. That's why we use a lot of second-hand data, and we apologize for it.

2. BACKGROUND

There are many factors promoting financial education. For example, it is required to improve financial literacy and financial actions for the better after the latest financial crisis (Lehman-collapse), it is required to form financial assets individually in global economic capitalization and financial deregulation, individual can access many kinds of financial products such as stock, investment trust, foreign exchange, money management fund (MMF). And many developed countries can't guarantee a pension in the future because cost of social security is increasing.

For example, according to homepage of Ministry of Finance, in 2015, total cost of social security in Japan occupies about 25% of GDP, and more than 50% of cost of social security in Japan is spent for the National Pension. If this situation lasts, Japan will face economic collapse, so the amount of the National Pension is decreasing. That's why Japanese government recommends for people to invest for financial asset as a way to reserve for old ages. Accordingly, it is important to enhance people's financial literacy.

Besides, the number of financial crime targeting individual is increasing, so it is required to develop individual financial literacy to protect consumers. Thus, financial education is one of the most important social policies not only for elderly people who tend to invest excess cash but also for young people.

In the 1990s, developed countries started to conduct financial education, but there is no global standard financial education method by for now, and every country tries to find better methods. Rather financial education might have to be different from economic characters in each country mentioned OECD (OECD, 2012, p. 7).

By the way, what is the aim of financial education in Japan? There was no guide to show the necessity of financial education, but a study group on Financial Education (Study Group of Financial Economy Education) formed by Japanese Financial Services Agency showed an official guide. According to this guide, the aim of financial education is summarized as below.

- Financial literacy as a life skill
 - No one in modern society can avoid involvement with financial matters.
 - It is important to make life planning a habit and acquires the knowledge and judgment needed to appropriately select/use financial products in order to achieve financial independence and lead a better life as a member of society.
 - Financial literacy to encourage the provision of sound, high-quality financial products
 - Government regulations alone can only go so far in achieving user protection; moreover, excessive regulation could hinder innovation by financial institutions.
 - As users improve their acumen in selecting financial products, better financial products can be expected to become prevalent.
 - Financial literacy encouraging the effective use of household financial assets in Japan
 - The majority of Japan's approximately 1500 trillion yen in household financial assets is held in cash and savings. One reason for this is inadequate understanding of the benefits of diversified, long-term investment.
 - If households are encouraged to engage in diversified, medium to long-term investment, the effect would be to help make available to growth sectors a sustained supply of funds.
- (Source) Financial Services Agency (2013) p. 1.

As you can read, the aim of financial education is to give individual profit as well as to develop economy of country and local area by “Financial Literacy”. This way of thinking evokes the idea of “Social Common Capital” by Hirofumi Uzawa (Uzawa, 2008), who has taught in the University of Tokyo, the University of Stanford, the University of California at Berkeley and the University of Chicago. In Japan, it is sometimes treated with negative image to study about financial transaction and asset formation and to make a profit from investing financial products in Japan even now. However the system of finance is one of the public goods in modern society and to invest unemployed capital in capital market temporarily can develop people seeking funds and society. Investors give society funds to make new value so that getting return as an equivalent for their investment should not be had a guilty (Speculation should be apart from this matter.) although we think as such, the Financial Services Agency in Japan defined the aim and value of financial education as above and promoted financial education in many kinds of means and support. After that new development of financial education in Japan has begun and has formed an innovative financial education system.

Related to the trend, Mr. Kikuo Iwata, who is Deputy Governor at Bank of Japan that is the central bank in Japan, explained as below at “Special Address at the ADBI-Japan-OECD High-Level Global Symposium in Tokyo” in 2015 held in Tokyo, Japan.

“...In addition, with the declining birthrate, the proportion of people aged 65 years and older is expected to rise to nearly 30 percent by 2020. Considering the large burden borne by the working-age generations, the role of public pensions will become smaller. In other words, each individual's efforts to achieve financial independence in their retirement period have become more important. Encouraging elderly people to work longer is one important factor, but so is improving financial literacy. Starting lifetime planning while still young and reserving assets for retirement will help.”

(Bank of Japan, 2015, pp. 1-2)

However he also said as below and mentioned about the necessity of politics to improve financial literacy in Japan.

“However, there are worrisome signs that financial literacy associated with lifetime planning has been undermined.

As I mentioned earlier, households' financial assets have been growing. However, at the same time, the number of households that do not have such assets has been increasing recently. This trend has been observed in a wide range of income groups, including the high-income group. The backgrounds to this are varied, and problems related to financial literacy represent one of the factors. One example is a weaker awareness of the importance of lifetime planning.

There are various concerns regarding children as well. In this affluent society that is undergoing demographic changes and rapid progress in technology, children could lose their sense of the value of money. For example, we have the so-called "six pocket problem."

This refers to a phenomenon in which a child is indulged with money given by the parents and grandparents of both the father and mother. Another is the "invisible money problem"; that is, a situation in which a child does not feel that they actually paid a price for something, given the increasing use of electronic money. In both cases, children have fewer opportunities to realize, through the first-hand experience of using physical money, that there are limits to the money we can spend.”

(Bank of Japan, 2015, pp. 2-3)

Anyway, it is more and more necessary to improve financial literacy and to conduct financial education in Japan these days.

3. NEW DEVELOPMENT AND INNOVATION OF FINANCIAL EDUCATION IN JAPAN

We can say that financial education has been conducted since the 1960s, the period of rapid economic growth, as a view from just protecting consumers. It was after 2000, when the Financial Services Agency thought financial education of an important policy, and after 2005, when they declared items to be done soon, that modern financial education was conducted. After that, a government, schools, local governments and financial institutions have developed and conducted many kinds of financial education independently. However Study Group on the Promotion of Financial and Economic Education (2014) found that 95 percent teachers who have conducted financial education in junior and senior high school had some difficulties in their financial education. Main difficulties are shown as below.

- The focus on understanding terminology or systems makes it difficult for students to relate lessons to their actual lives.
- Students learned the information, but found it difficult to pick up abilities or attitudes.
- Lack of expertise among teachers makes it difficult for students to understand the relationship between risk and return in investment.
- The main features of financial products were not necessary to teach until after high school.

Such kind of indication causes the dramatic change of financial education in Japan. For example, Japanese government showed the aim of financial education (Figure1) and the

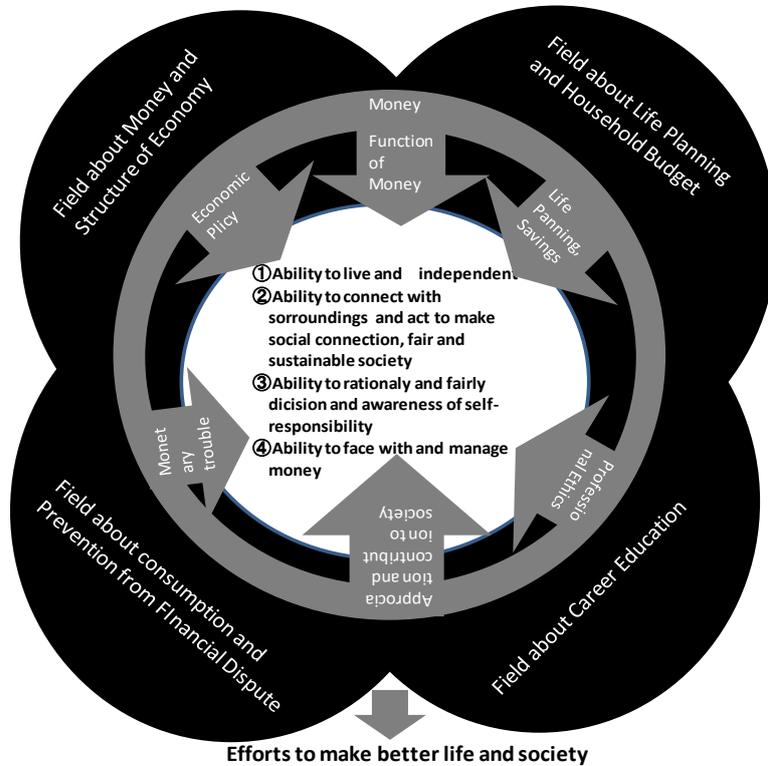
way to achieve it and industry-academia collaboration has been promoted. For example, Tokyo Gakugei University, University of Tsukuba and KAGOSHIMA University develop programs of financial education and conduct them collaborating with financial institutions in the suburbs (Some of them started it before 2013). This kind of industry-academia collaboration conducts required education and gets great results in each local area.

We introduce industry-academia collaboration about University of Tsukuba. University of Tsukuba collaborated with Mitsubishi UFJ Financial Group to invent financial economic educational support program for higher-grade students in primary school as an educational support CSR. Specifically, they created a web site and a guidance book with DVD to learn financial economy. The web site consists of four themes "Use", "Savings", "Lending", "Financial Activity", and uses cartoons students not to get bored. This web site is run by NPO who has many experiences to invent classes with industry and academia. This program is continued still now, and its homepage has been updated,

and become more effective. That's why more and more users join this program.

The efforts of industry groups also cause this kind of innovation and improve education effect significantly. For example, Japan Banker's Association which most of Japanese banks belong to distributes Web contents, CD-ROMs and pamphlets for free to tell people the roles of banks and promote people to use them appropriately. They make separate educational materials for elementary school, junior high school and senior high school and offer special educational programs for teachers for free. Japan Specialists from Banker's Association have classes at school, sometimes.

Figure 1. Purpose of Japanese Financial Educational System.



(Source) The Central Council for Financial Services Information(2015) p.19.(Author Modified)

Furthermore, the most effective system that Japan Banker's Association offers is the school designation system of financial education. This system designates mainly high schools to concentrate on financial education and offers various education programs for students for free. This system has just started, but they had taught more than 20 schools by last year.

In addition, Japan Securities Dealers Association conducts financial education. They invent and provide financial educational materials (printed version, web version) for school, also have seminars for financial educators. For example, they provide "Stock Learning Game" for junior, senior high school and university students. This game was created referring to "Stock Market Game". In this game, students do imitation trade using virtual initial money (about 100 thousand dollars). Students can learn not how to increase investment return but the system of economy and capital market experiencing social situation change. This game needs to be played by not individual but a group consisted of some students. Players need discussion in order to learn decision-making process reasonably in economy.

Japan Securities Dealers Association monitoring the state of implementation of this game (Japan Securities Dealers Association, 2015, p. 5), 35480 students from 830 schools played this game last year. The details were 236 junior high schools (28.4% of all), 383 senior high schools (46.1% of all) and 180 universities (21.7% of all). The reasons that schools let students play this game were mainly to enhance interest of economy and society, or to realize living economy and society. After playing the game, about 95% students was satisfied with it more students were interested in politics.

We have never gained this kind of achievement we can say that Japan Securities Dealers Association and schools collaboration caused a big impact financial educational innovation.

In addition, Bank of Japan or Japan Financial Agency contributes financial education positively. Anyway, financial education in Japan is solving problems by industry-academia collaboration and industry groups and making effective educational methods. New development and innovation of financial education in Japan will be meaningful precedents for other Asian countries having similar sense of values as well as other countries exclude Asia to develop financial education system in the future.

4. OTHER COUNTRIES CASE

Anglo-Saxon countries such as United States of America and United Kingdom are the birthplace of financial education. So we would like to introduce examples of representative countries shortly. We mainly refer to Kurihara et al. (2014) in this chapter.

First, United States of America has financial education programs in each State or school, though these are not public program. Especially the representative is an NPO corporation, Jump\$Start which more than 150 institutions interested in financial education invested and established. Jump\$Start conducts financial education investigations and financial literacy investigations of university students. (Kitano, Nishio, Ujikane, & Osanai, 2014, p. 299).

In detail, they prepare more than 800 educational materials and offer the system to learn knowledge about finance through SNS and Internet games. VISA also offers educational materials for free, which enables from children to adults to learn finance through games and textbooks.

In United States of America, Financial Literacy and Education Commission was established in 2013 and started to develop public financial education. In England, financial

education is part of official educational curriculums called Personal, Social, health, and Economic Education. According to the formal document by Department for Education that is in charge of educational policy, financial education is conducted for from 11 to 16 years old students connected with mathematic. (Department for Education, 2013, p. 103).

In Australia, after Melbourne Declaration on Educational Goals for Young Australians in 2008, national curriculum has been made. Financial education plans to be done about personal finance in Business and Economics curriculum for 5th grade students in elementary school though this is still draft curriculum in May 2015. (Miyahara, 2014, p. 18) The other countries such as Germany and French become to conduct financial education positively.

Every country that started financial education earlier than Japan has different systems. However, to think about United States of America is highly expected to introduce public financial education systems, we can say that government will play important roles and companies and industry groups will support it. (Government plays important roles in Germany and French.) Unfortunately, there are not so many results of study that show financial education system works effectively. To compare with Japanese case, industry-academia collaboration and collaboration with industry group improve financial education greatly in Japan. Therefore Japan is required to make financial education system as social policy to be a good model to such countries.

5. CONCLUSION

This thesis shows the meaning of financial education and new development and innovation, also surveys about United States of America, United Kingdom and Australia and refers to the different points with Japan. This study shows as below.

- Financial education in Japan has problems about teacher's financial acknowledgement, educational materials and lack of relationship between actual life and financial economy.

- The collaboration between government and educational institution to solve problems above may cause financial educational innovation.

- The development of financial education in Japan can be a good example for countries which need financial education in the future.

This thesis shows that new development of Japanese financial education and innovation, but it will take a few years to get a full-scale result. The importance of financial education is increasing in present society, so it is required to conduct better conducts in schools by trial and error. To improve financial education, it can be great support the view from not only economics but also education policy, teaching methodology.

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