

IS THERE FINANCIAL EXCLUSION IN JAPAN? A REPORT OF FINANCIAL DIARIES

Seminar of Financial Inclusion Study Group
December 8, 2018 at Meiji University, Tokyo

Takashi Koseki
Meiji University



SUMMARY

- This report aims to clarify whether there exists financial exclusion in Japan –if so, what kind of exclusion exists.
- We conducted Financial Diaries study and supplementary interview survey to see household finance of needy people.
- Financial exclusion in developing countries is different from that in Japan, where social security and financial services are well established.
- Comparing with Financial Diaries studies in developing countries, this Diaries study in Japan found marginal role of informal finance and major need of money for consumption among needy people.



CONTENTS

1. About Financial Diaries
 - a. Basics of Financial Diaries
 - b. Expansion of Diaries studies
 - c. Implication from Diaries studies
2. This Financial Diaries study
 - a. Methodology
 - b. Major findings
3. Discussion



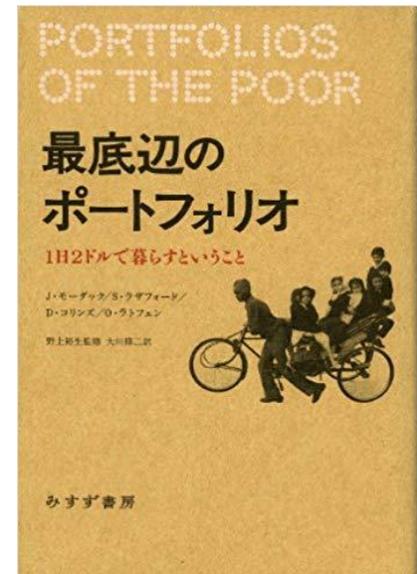
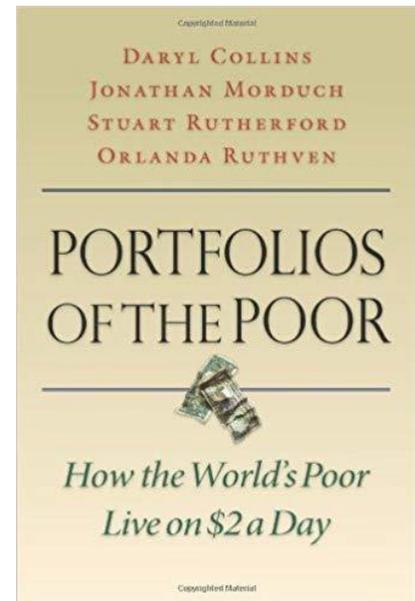
ABOUT FINANCIAL DIARIES

- Basics of Financial Diaries
- Financial Diaries is a dairy record of financial transactions of poor households based on interviews at least twice a month for one year. (Morduch et al. 2009=2011, 9-10)
- The basic concept behind Financial Diaries is that the nature of finance is relation between time and money and a thought that we should observe both time and money at the same time to truly understand finance. (Morduch et al. 2009=2011, 248)
- Financial Diaries study basically aims to clarify how poor people live economic lives and do financial transaction and what kind of issues they face.
- The most feature of Financial Diaries study is longitudinal and in-depth survey style targeting small-number households.



ABOUT FINANCIAL DIARIES

- The first Diaries project
- Bangladesh (1999-2000) by S. Rutherford
 - Targeting 42 households
- India (2000) by O. Ruthven
 - Targeting 48 households
- South Africa (2004) by D. Collins
 - Targeting 152 households
- Researchers chose households from deprived communities in both urban and rural areas, and repeated visiting these households biweekly for a year.
- Target households include not only very poor but also moderate and non-poor households. Strict means test was not conducted to filter target households.
- This project made a “portfolio” to show that poor households cope with economic difficulties by combining a variety of financial tools including informal finance, and that their cashflow size is relatively big compared to their income level.



Morduch et al.
(2009=2011) 

■ Significance of the book
“Portfolios of the poor”

- Figured out financial lives of the poor objectively by a fusion of economic approach (quantitative) and ethnological approach (qualitative)

- Drew dynamic situation of the poor instead of snapshot of a certain time or annual average

- Especially pointed out issues along microfinance and insisted importance of financial services that should be improved for the poor

表 A2-7 調査年の期首、期末における金融純資産
(金額は市場レートを用いて米ドルに換算)

		期首 残高	期末 残高	残高合計 に対する 割合	TO	TO 合計 に対する 割合	備考
資産							
フォーマル	準備基金	604.44	733.08	54%	128.67	13%	給料天引きの政府年金（これに加えて会社が同額を負担）
インフォーマル	無利息ローン（貸付）	0.00	0.00	0%	41.84	4%	少額の「ギブ・アンド・テイク」型の貸付3件。すぐに回収
	RoSCA 貯蓄	-150.63	4.18	0%	154.81	15%	オークション RoSCA。今回の調査開始前に給付金を受け取り済み
	ASCA 貯蓄	-86.82	0.00	0%	86.82	8%	彼は職場の ASCA の出納係を務めていた。今回の調査開始前に貯蓄額以上の借入を行っていた
	故郷への送金	0.00	621.34	46%	621.34	60%	実家を建て直すための費用として、多額の送金を3回行なった
合計		366.99	1358.60	100%	1033.48	100%	
負債							
インフォーマル	無利息ローン（借入）	83.68	225.94	47%	569.04	43%	デリーでの諸経費（接待費、ハットメントのリフォーム費）と帰省の際の旅費にあてるための借入7件。返済期間3カ月
	利息付きローン（借入）	322.18	219.67	46%	102.51	8%	古くからのローン2件。いずれも定期的に利息を支払っている
	賃金前借り	0.00	0.00	0%	334.73	26%	計5回。いずれも帰省の際の旅費にあてるため。返済期間2カ月。給料から天引き
	商店のつけ	0.00	34.52	7%	296.03	23%	
合計		405.86	480.13	100%	1302.31	100%	
金融純資産		-38.87	878.47	フロー総額	2335.79		

EXPANSION OF DIARIES STUDIES

- FD research groups divided into two
- Bankable Frontiers Associates (BFA)
 - A consulting firm founded in 2006
 - Headquartered in Boston/ branches in Kenya, India and Columbia
 - Founder: David Porteous / CEO: D. Collins
 - R&D of financial services for low-income people and researches on digital finance in developing countries
 - FD studies have been conducted in South Africa and India (2007-2010), Kenya (2012-2013), Rwanda (2013), Mexico (2013-2015), Mozambique, Tanzania and Pakistan (2014-2015) (see "[Financial Diaries](#)" website)
- Methodological features
 - Uses the database software developed by Collins
 - Visits target households biweekly, the same as the original style of "Portfolio of the poor"
 - Collects detailed data at the beginning of Diaries survey with elaborate format

BFA

 **Financial Diaries**



EXPANSION OF DIARIES STUDIES

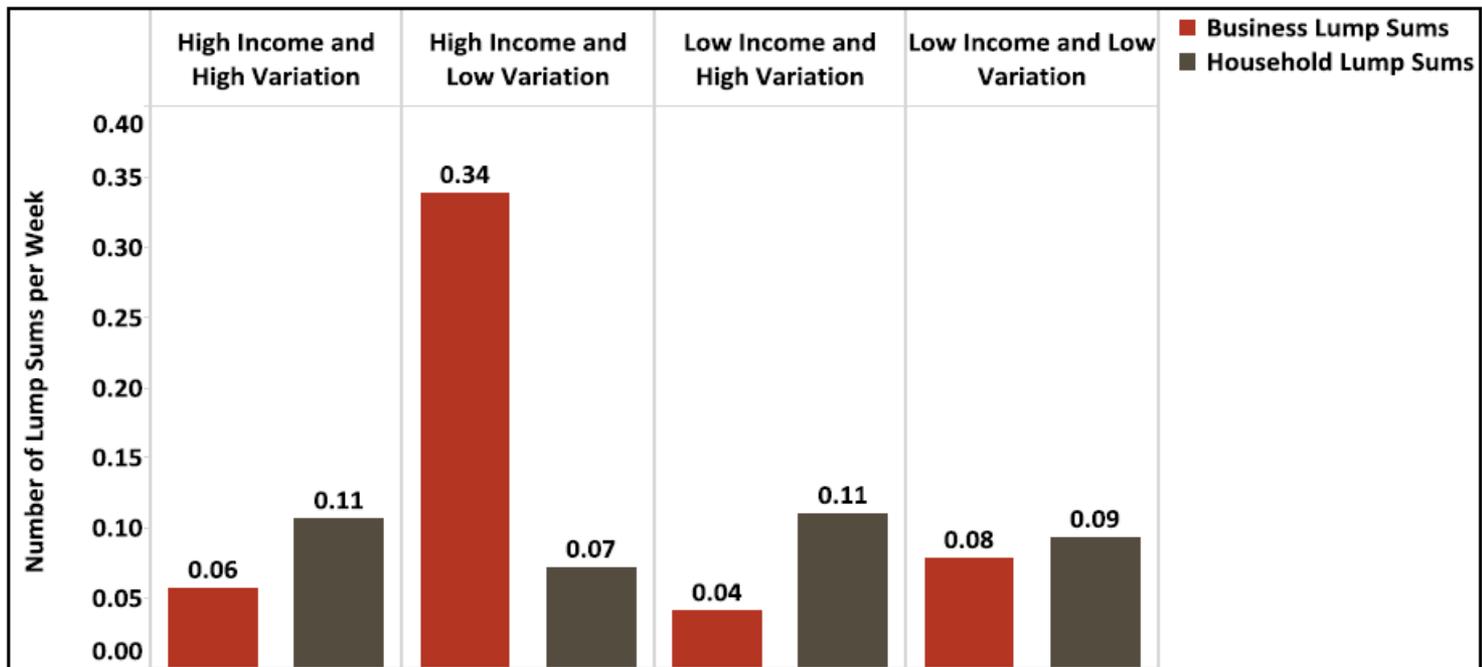
- FD research groups divided into two
- Microfinance Opportunities (MFO)
 - A consulting organization
 - Headquartered in Washington, D.C.
 - Executive Director: Guy Stuart
 - Researches on online-banking, consumer protection and consumer behavior, and financial literacy education
 - FD studies have been conducted in Kenya (2011), Malawi (2011), Uganda (2012), India (2013), Myanmar (2015), Bangladesh (2015-2016), Zambia (2016) and Cambodia, India and Bangladesh (2017-2018) (see [Financial Diaries](#) website)
- Methodological features
 - Uses simplified database
 - Visits target households weekly or daily (more frequently than BFA style)



EXPANSION OF DIARIES STUDIES

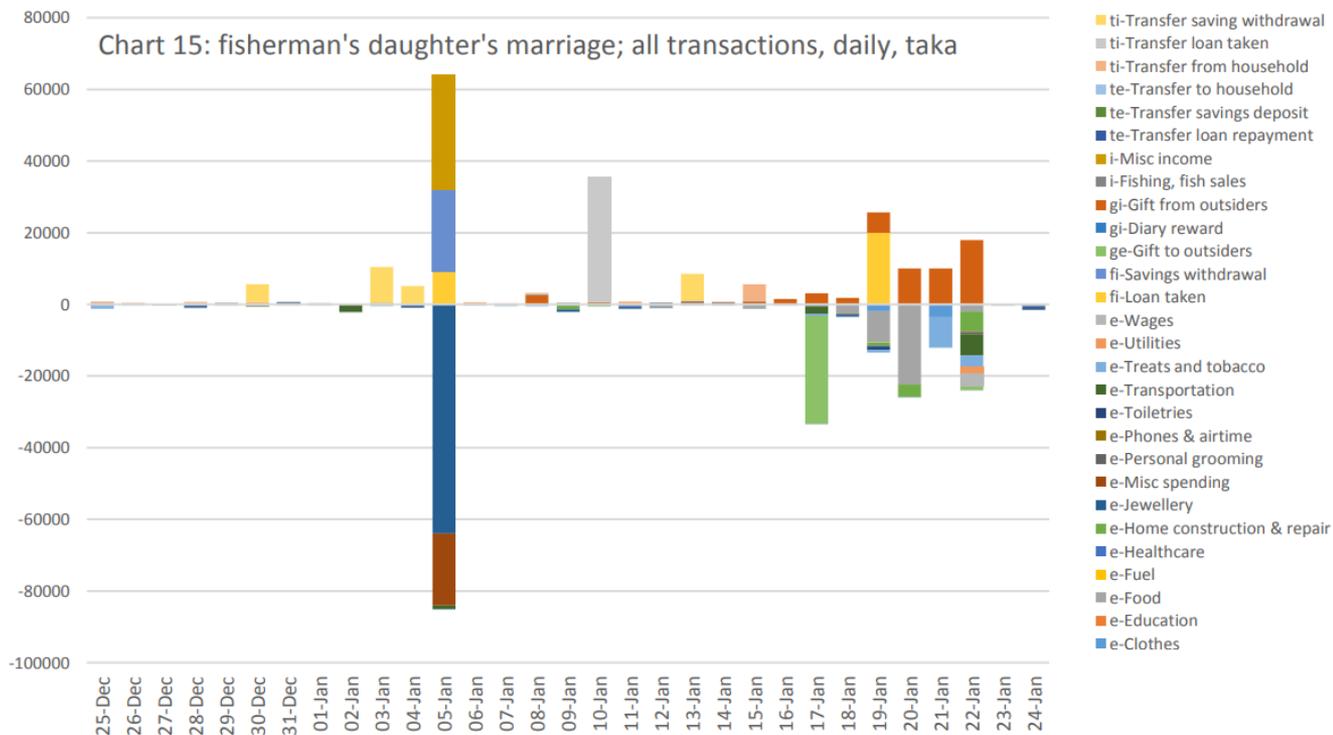
- Diversified purposes of FD studies
 - FD in Zambia (done by MFO): Clarified **linkage between income variation and expenditure pattern.**
- Households with high income variation use financial tools more frequently to pay lump sums of expenditure. Households with low income variation tend to pay lump sums of expenditure.

Figure 13: Business and Household Lump Sums by Income Segment



EXPANSION OF DIARIES STUDIES

- Diversified purposes of FD studies
 - FD in Bangladesh (done by MFO): Showed **the poor households' temporary situation in short of cash** by tracking daily income and expense data.
 - Criticized microcredit loans which do not necessarily match cashflow and needs of the poor.



EXPANSION OF DIARIES STUDIES

- Diversified purposes of FD studies
 - FD in Myanmar (done by MFO): Focused on **financial management and demands inside household**.
 - Showed that IHT (inside household transfer) mitigates the impact from income volatility. Also clarified seasonal income volatility and lump sum expense.
- FD in Kenya (done by MFO): Focused on **degree of accepting digital money**. Showed low percentage of using M-PESA for economic transaction in cash economy. Also showed high reliance on informal finance based on existing social relations.
- FD in Uganda (done by MFO): Examined **the effect of financial literacy education**. 金融教育 People in treatment group who had financial education tend to make budget and to get satisfied of financial management by using financial opportunities such as saving groups frequently.
- FD in Malawi (done by MFO): Evaluated **the effect and issues of banks' on-site services**. Revealed low usage of bank account and overwhelming existence of informal finance.



EXPANSION OF DIARIES STUDIES

- Diversified purposes of FD studies
 - FD in India (done by MFO): Provided training of **banking cards** and measured **how the training brought any change of financial behavior of trainees**. However, neither banking cards nor training gave behavioral change.
 - FD in Bangladesh, Cambodia and India (done by MFO): Looked **at household finance and working conditions of female garment workers**. Showed that those workers borrow money or withdraw savings when short of money due to low wage. Also clarified characteristics of each country by comparison.
 - FD in Mozambique, Tanzania and Pakistan (done by CGAP): Compared three counties to show difference deriving from **agricultural business model (self sufficiency, dealing at market and large plantation)**. Also showed farmers' **big income volatility** which need smoothing with side business and finance.
 - FD in South Africa (done by BFA): **Funeral insurance issue** (insurance is insufficient to cover funeral cost), **fundraising of microbusinesses** (low usage of bank loans) and **social security and pension fund for retirees**.



EXPANSION OF DIARIES STUDIES

- Diversified purposes of FD studies
 - FD in Rwanda (done by BFA): **Revealed low-income people's financial behavior and their view on banks**. Also considered what financial services banks should provide for them.
 - FD in Mexico (done by BFA): Showed **inequality of economy, living standards and financial services between urban and rural areas**.
 - FD in Kenya (done by BFA): Studied **financial behaviors and portfolios of low-income households**. Showed income volatility and diversity of asset and liability.
- All FD studies showed the gap between existing financial services and necessary financial services for the poor, with a viewpoint of their economic lives and financial behavior. These studies imply what needs to be improved.
- Although basically the same methodology, each study differs its purpose and focus. It means high application possibility of FD methodology.



EXPANSION OF DIARIES STUDIES

- FD studies in developed countries
 - FD study in the U.S. by J. Morduch et al. ([U.S. Financial Diaries](#))
 - Targeted 235 low-income households in 4 areas in 2012-2013
 - Showed high diversity and volatility of income, little savings for emergency (less resilience against emergency) and existence of informal finance.

FIGURE 2: The Garzas' Income Sources³

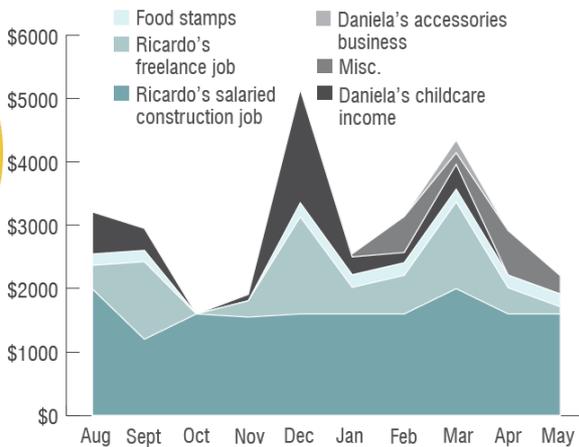
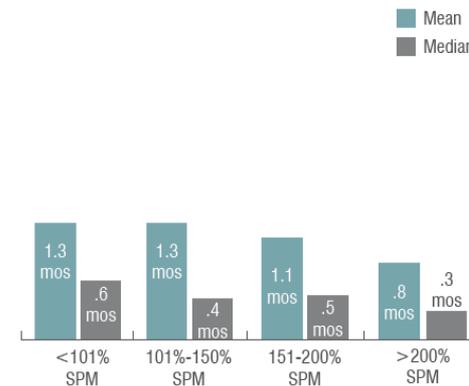


FIGURE 6: Months of Income in Savings, by Income Level (only HHs with Savings)



- O. Biosca conducts FD study in Glasgow, UK (unpublished)
 - Our team conducted FD study in Japan (2016-2018)
- FD study is meaningful in developed countries, while the context is different from developing countries**



IMPLICATION FROM DIARIES STUDIES

- **Income volatility and unpredictability of the poor**
 - Change in income that is invisible from annual average amount
 - The poor's wisdom to combine multiple income sources and respond to unpredictable variation
 - Existing microfinance products have not provided financial services that match economic lives and financial needs of the poor. → financial exclusion
- **Coping with life risks and loan demands for consumption**
 - Lump sums of expense when illness, death, disaster and marriage
 - Bankruptcy if insufficient savings, lack of insurance or weak tolerance
 - Large loan demands for consumption, although microcredit lent only for businesses or getting a job
 - Potential financial needs should be large in a society where social security system is not well established
- **Share of informal finance and social capital**
 - Microcredit and electric money occupy only small shares in all of financial transaction of the poor. Informal finance still plays a major role for them
 - Informal finance is based on social capital



IMPLICATION FROM DIARIES STUDIES

- **Why FD study in Japan?**
- Clarifies financial exclusion from household finance
 - Matured financial services and social security system, different from developing countries. Lack of visible financial exclusion threshold such as credit score in the US.
 - Abstract debate along financial exclusion: Micro-level empirical approach is meaningful to deepen the debate.
- **Consider desirable financial inclusion for the poor**
 - Desirable financial inclusion from the viewpoint of financial services users
 - Linkage between maturity of social security and financial system and the way of financial inclusion
- **Show characteristics of Japan by comparing with other countries through the same methodology**
 - Informal finance, backed by social capital, plays important roles in developing countries. → how about developed countries?
 - Microcredit services in the US mainly target immigrants and refugees from developing countries, which often utilize social capital in immigrants' communities.



THIS FINANCIAL DIARIES STUDY

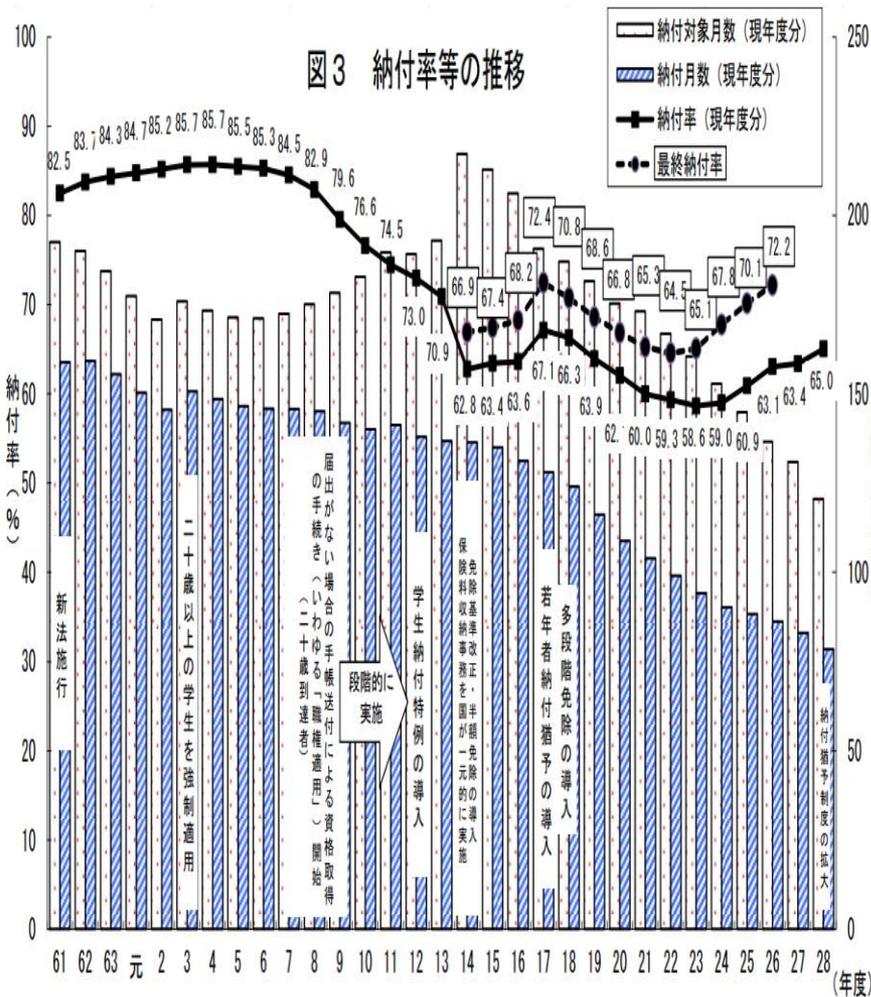
- Purpose of the study
 - To understand the situation of financial exclusion in Japan
- Background
 - Necessary to design method that matches the proper background and real demands, thinking of feasibility of microfinance in Japan
 - Easy replication of microfinance method from developing countries would not work well
 - Studies on poverty tend to focus on low income, unstable working conditions, exclusion from social services such as housing and education, and public assistance. Financial exclusion is unlikely to be focused. However, poverty and social exclusion should have some linkage with financial issues.
 - Financial issues tend to be discussed along over-indebtedness, financial deregulation and postal service privatization, but rarely discussed along financial exclusion from a viewpoint of consumers.
 - Economic and social situation in recent years: increase in non-regular workers, increase in households receiving welfare, over-indebtedness, difficulty in repaying education loan, increase in bank card loans, dropping rate of paying pension fees and low savings rate



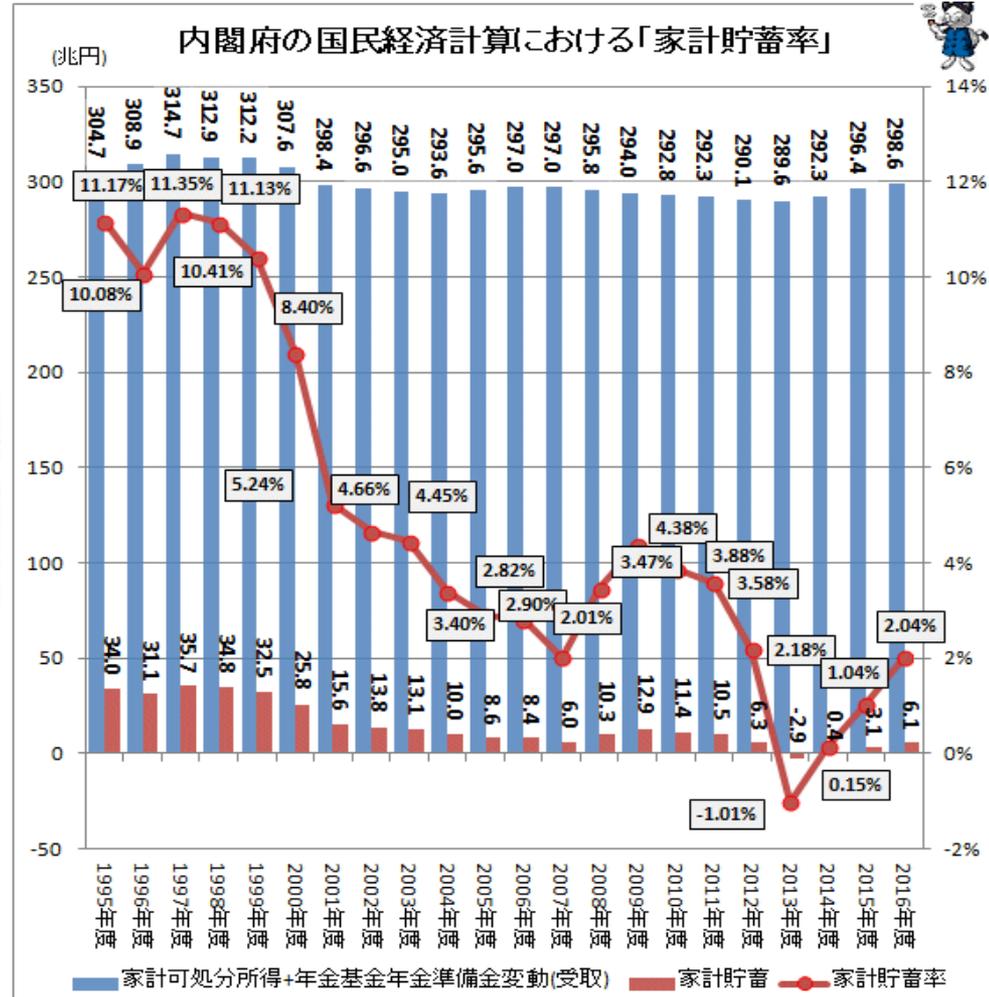
THIS FINANCIAL DIARIES STUDY

Dropping rate of paying pension fees

図3 納付率等の推移



Dropping rate of household savings



THIS FINANCIAL DIARIES STUDY

In the world

Approx.2000: as the idea of financial inclusion got to disseminate, microfinance was positioned as one kind of financial inclusion

Middle of 2000's: emerged fintech services for financial inclusion

2008: credit crisis worldwide

2009: APEC and G20 started financial inclusion policies

In Japan

Last of 1990's banks suffered from bad debts and FSA strengthened regulation pursuing wholesomeness of banking system

2003- 06 Relationship banking policies promoted by FSA

2005 Postal service privatization law enacted
2006 Amended law of money lenders to address over-indebtedness issue

2008: Recession and many bankruptcies of companies. Financial institutions in crisis

2011: Earthquake in East Japan

2013: Law to help needy people become independent enacted



THIS FINANCIAL DIARIES STUDY

▪ **Financial exclusion issues in recent years in Japan**

- **Japanese Financial Big-Bang:** Financial system reform called “Japanese Financial Big-Bang” (1996-2001) as one of financial deregulation policies. As banks pursued more profit to strengthen competitiveness, they chose merging banks and consolidation of branches.
- **Postal service privatization:** In the process of the bill at the Diet, people worried of disappearing postal offices providing financial services in rural areas, if postal services become privatized. In the end, universal service was mandated to postal company.
- **Over-indebtedness:** Annual cases of personal bankruptcies counted 24,000 in 1984, mostly due to “Consumer finance hell”. After the end of “bubble economy”, personal bankruptcies peaked again, with more than 103,000 cases in 2003. The government amended the law to regulate money lenders in 1983, 2000 and 2006 to gradually drop the upper limit of annual interest rates.
- **Public assistance:** : People living on welfare are limited to save. If they save a lot, they will be given assistance less. They are not allowed to join insurance except education endowment insurance. They are not generally allowed to borrow. They are required reverse mortgage to lose their real estate before they get assistance.



THIS FINANCIAL DIARIES STUDY

- Review of researches on financial exclusion/inclusion in Japan
- **Financial studies approach**
 - Applied debates of financial exclusion in the US/UK directly to Japan, looking at banks' merges and postal services privatization.
 - Pointed out the risk of financial exclusion such as geographic exclusion, customer selection and banks' bankruptcies in the near future.
 - Major researchers: H. Fukumitsu, T. Tajiri and H. Okamura
 - Their definitions and assessing standards of financial exclusion are inconsistent. Their studies did not include survey of people at the risk of exclusion.
- **Social welfare studies approach**
 - Discussed the relation with public assistance, issues of loan service for low-income people, repayment of education loan and over-indebtedness.
 - Major researchers: M. Iwata, H. Noda, M. Toriyama and J. Sato



METHODOLOGY

- Interviewer visits the same household **biweekly**
- Biweekly \times **26 times = one year** (52 weeks)
- **Collects transaction data** at every visit
- **Interview** for 60 min. at every 4 weeks
- **Inputs transaction record to the database**
- Also **makes interview memo**
- Researchers discuss and exchange info with interviewers



Visit and
interview

Visit

Visit and
interview

Visit

Visit and
interview



METHODOLOGY

- Frequency of visiting households depends on each FD study
 - Original FD, BFA group and U.S. project visit biweekly
 - MFO group visits weekly or daily
 - UK project visits monthly
- Why visited biweekly?
 - Weekly visit is too heavy burden for both interviewers and target households.
 - Monthly visit makes target households hard to keep record and memory. Difficult to build trust between interviewers and households with less frequent communication.
 - Even biweekly visit is heavy burden for them. Therefore interview is every 4 weeks to lessen burden.
 - Allowed flexible scheduling based on interviewers and households. However, avoided too long blank between visits. (The longest blank was 8 weeks in the U.S. FD study)
- Why continued one year?
 - FD studies in other countries continued one year (but in some cases 3 years or a half year)
 - Necessary to count seasonal factors (such as the beginning and end of the year)
 - Lead time span until trust get built and data get credible



METHODOLOGY

- Selecting target households
- Hypothesis of people excluded from financial services: different kind of people scattered
 - Indebted or bankrupted people, people delinquent in paying pension fees and victims of financial fraudulence
 - Single parent households, survivors of domestic violence, single mothers living in dormitories
 - The disabled (physical, anoxia, developmental and mental)
 - Vulnerable road users in unpopulated areas, residents in devastated areas
 - Low-income people, unstable workers such as dispatched or contract-based workers, and people living on welfare
 - Homeless people
 - Immigrants and refugees living in Japan ...and so on
- Approach to target households
 - Household as a unit of analysis, the same as other FD studies
 - Not focused on Inside Household Transfer
 - Very small number of target households. Random sampling is impossible
 - Quite hard to approach candidate households directly
 - Asked cooperation to candidate households via support organizations



METHODOLOGY

- Approach to target households
 - Difficult to make strict threshold to filter target households
 - Recruiting itself was very hard, due to continuous burden, hesitation of disclosing privacy and small amount of reward
 - Got target households with cooperation of support organization, but the number of households was less than a half of the original goal of 30 households.
 - 18 households at the beginning → 4 households dropped out → 14 households successfully completed one year. Data analysis eliminated the 4 cases which dropped out.
 - FD studies in other countries (for one whole country) usually cover both urban and rural areas. However, this FD study covers only urban areas: Tokyo (7 households), Chiba (6 households) and Osaka (1 household)
- Budget
 - Grant-in-Aid for Scientific Research(C) “Possibility of getting out of poverty through financial inclusion” (FY 2016-2018, headed by T. Koseki) Direct grant: ¥3.5 million
 - Paid rewards to support organizations, interviewers and target households from the grant



IMPLEMENTATION MECHANISM

Recruitment via associations of certified social workers
Interviewers are all certified social workers
A kickoff seminar, a networking event in mid-course, and a closing event



Contract of survey
Provision of data
Payment of reward

Selection and referral of target households

Support organizations



Ask cooperation
Payment of reward

Researchers



T. Koseki (Meiji University)
J. Sato (Bukkyo University)
Y. Kadosaki (Nihon Fukushi University)
H. Noda (Aichi Pref. University)



METHODOLOGY

(1)

- From April to Sep. 2016 Preparation
- Planning, negotiation with support organizations, recruitment and training of interviewers and recruitment of target households

(2)

- From Oct. 2016 to Sep. 2017 1st round of Diaries
- One-year survey of 5 households from 3 support organizations

(3)

- From Feb. 2017 to Jan. 2018 2nd round of Diaries
- One-year survey of 6 households from one support organizations

(4)

- From Nov. 2017 to Nov. 2018 3rd round of Diaries
- One-year survey of 3 households from two support organizations

(5)

- From Oct. to Dec. 2018 Presentation of major findings
- Japan Association for Social Policy Studies (Oct.), Society for the Study of Poverty (Nov.), and Financial Inclusion Study Group (Dec.)



METHODOLOGY

- Collection of financial transaction of the households
 - Can big volatility of income/expense or excess over expenditure be seen? If so, how do they cope with such situation? Can it bring asset loss or too much debt? (=Profit/Loss, flow)
 - How much asset and liability do they have? How do they utilize financial services such as savings, loans, insurance and asset management? (=Balance Sheet, stock)
 - Reasons, backgrounds and thoughts of change in income/expense, usage of financial services (=qualitative information)

⇒Attains comprehensive understanding through quantitative and qualitative information
- Usage of a cloud service
 - Japan has long tradition of household accounts
 - A family budget survey by the government
 - This study uses cloud service called “Zaim”
 - The same items of income/expense as governmental survey to compare with national average
 - Feature of Zaim: it can freely customize items of income/expense. It can make graphs and tables automatically. Almost all of services are for free.
 - Issues of Zaim: it does not include balance sheet. We made a spreadsheet to record asset and liability.



SUPPLEMENTARY SURVEY: INTERVIEWS

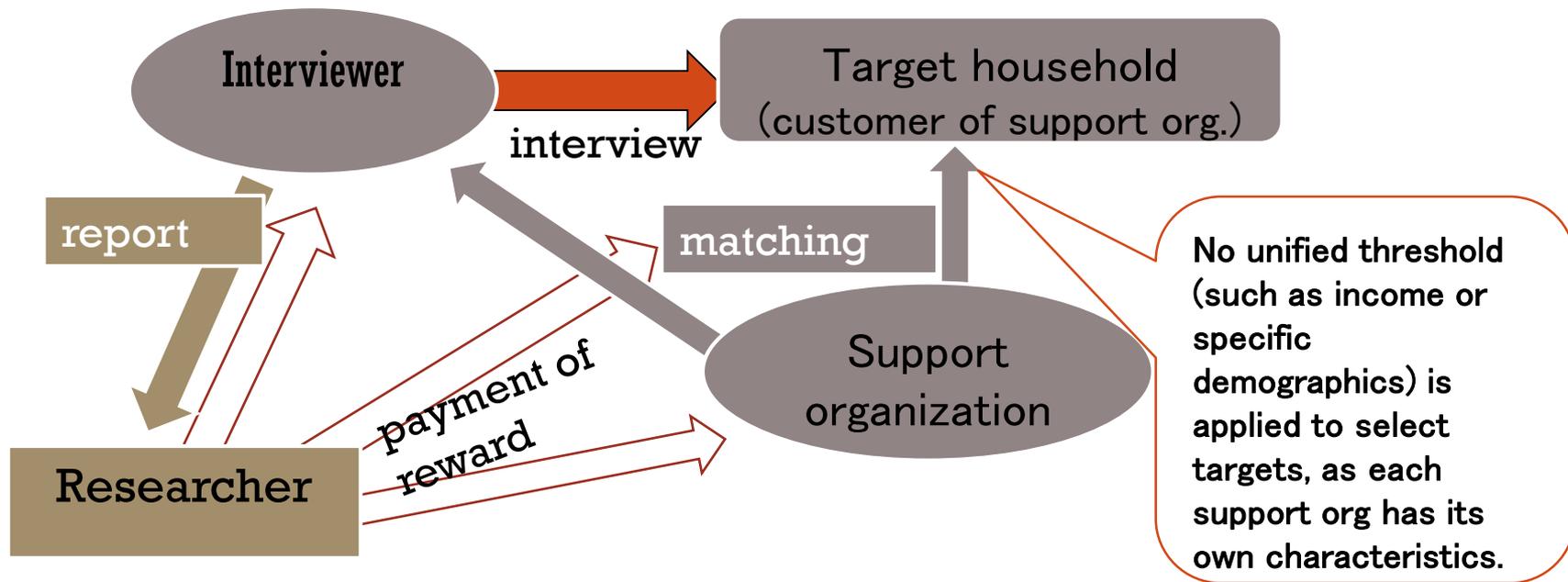
- Financial Diaries and interviews
 - Financial Diaries: longitudinal and in-depth survey to fewer targets
 - **Interviews: one-time and light survey to more targets**
 - Both surveys were aimed to supplement each other

	Interviews	Financial Diaries
Time span per a target household	One time (90 min.)	Biweekly 26 times for one year
Number of targets	57 households	14 households
Information to collect	Semi-structured interviews (an interviewer asks questions and fills the questionnaire form)	- Non-structured interviews - Financial transaction, asset and liability data
Period and area	July to Aug. 2017 in Kyoto Aug. to Oct. 2017 in Tokyo and Chiba July to Aug. 2018 in Aichi	Oct. 2016 to Nov. 2018 in Tokyo, Chiba and Osaka



SUPPLEMENTARY SURVEY: INTERVIEWS

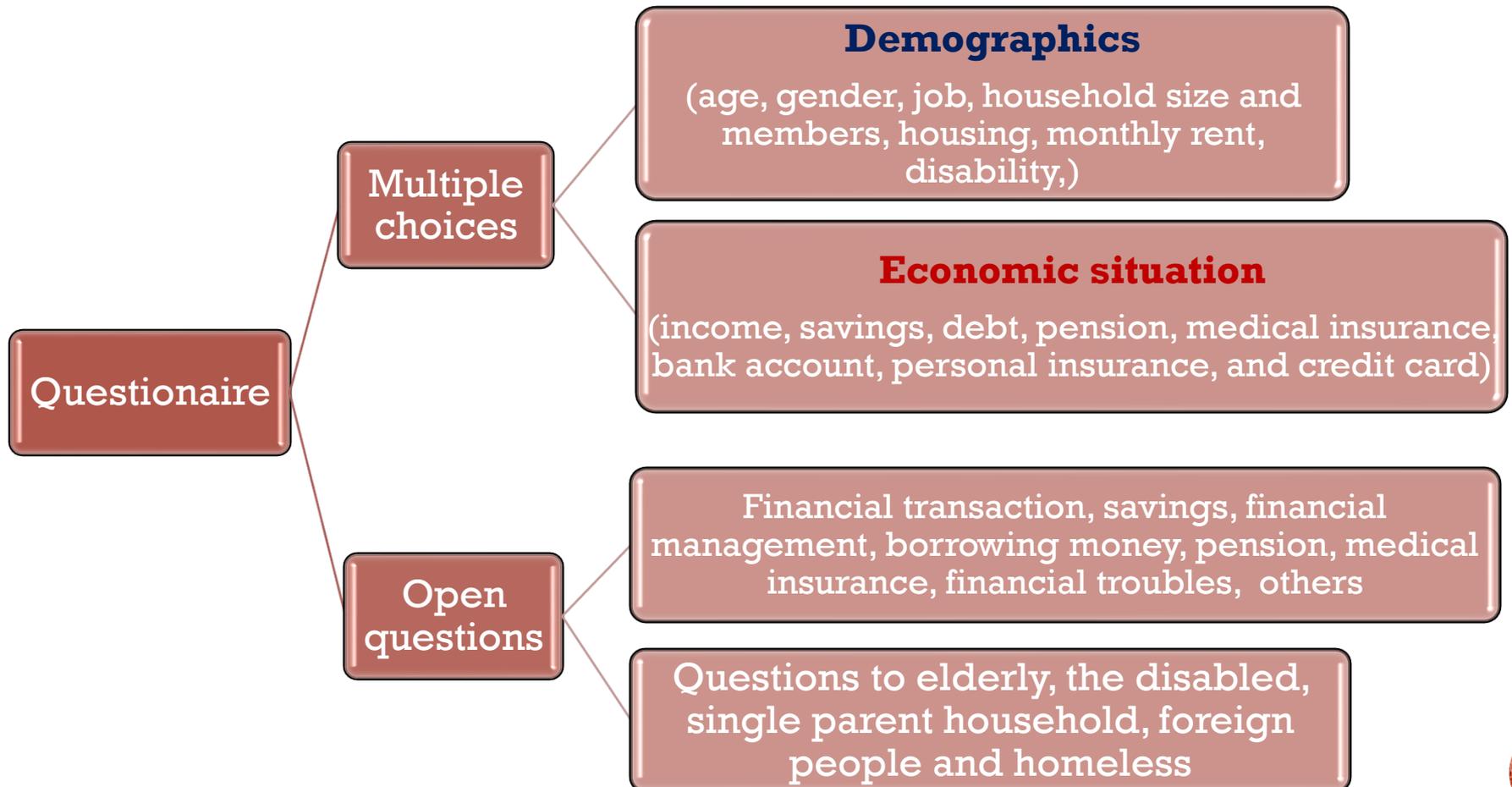
- Relation among researchers, interviewers, support organizations and target households
 - Recruited interviewers who were a certified case worker or a certified financial planner
 - Support organization recruited candidates and matched to interviewers
 - Interviewers conducted interviews and report to researchers afterward



Grant-in-Aid for Scientific Research(C) "Possibility of getting out of poverty through financial inclusion"
This survey plan was approved by the IRB of Bukkyo University.

SUPPLEMENTARY SURVEY: INTERVIEWS

• STRUCTURE OF QUESTIONNAIRE FORM



MAJOR FINDINGS

- **Income volatility**
 - People without public assistance: income change of non-regular work and their own businesses
 - People living on welfare or pension:
- **Response to shortfall in income, excess over expenditure**
 - Vulnerability due to lack of savings
 - Reliance on borrowing and delinquency in payment
 - Risk hedge by insurance and pension
- **Ability to manage household budget**
 - Mental or developmental disability and addiction
 - Language
 - Self-owned business: division household finance from business
- **Social capital and informal finance**
 - Mutual aid among family, relatives, friends and neighbors
 - Support from support organizations and welfare institutions



MAJOR FINDINGS

No.	Age	Gender	Household	Situation	Income source	Relation with relatives
No.1	Late 50's	F	Sole	Always sick	Public assistance	Estranged
No.2	Late 60's	M	Sole	Elderly	Public assistance+ pension	Estranged
No.3	Late 70's	M	Sole	Elderly	Public assistance	Estranged
No.4	Late 40's	M	Sole	Mental disorder	Public assistance	Estranged
No.5	60's	M	Sole	Elderly	Public assistance+ pension	No support
No.6	Late 70's	F	Sole	Elderly	Public assistance+ pension+ contingent work	Support from her son
No.7	Late 30's	F	Sole	Mental disorder	Public assistance+ part time work	Estranged
No.8	Early 80's	M	+wife	Elderly	Pension	Support from his son
No.9	Early 40's	M	Sole	Developmental disability	Pension for the disabled+ part time work	Support from his sister
No.10	Late 60's	M	Sole	Elderly	Pension+ part time work	No support
No.11	Late 30's	M	Sole	Illness	Part time work	Estranged
No.12	Late 40's	F	+husband, two children	Illness	Full time work+ self employment	No support
No.13	Late 50's	F	+husband, two children	Foreigner	Self employment+ contingent work	Borrow from her sister
No.14	Late 50's	F	+husband, a child	Foreigner	Part time work	Support from relatives

MAJOR FINDINGS

INCOME, ASSET, RESPONSE TO SITUATION IN SHORT OF CASH (THOSE WHO HAVE NOT BANKRUPTED BEFORE)

No.	Average monthly income	Asset (at the beginning and the end)	Response to situation in short of cash
No.2	¥127,362	¥29,000/ → nearly zero	Gift in-kind from support organization, Borrowing from friends, delay in payment of rent
No.3	¥123,656	¥117,261 →¥120,121	Borrowing from friends Borrowing from cellular phone company
No.4	¥83,028	Not disclosed	Borrowing from friends, delay in payment of cellular phone, skipping meals, using a food bank
No.5	¥118,714	¥117,184 →¥50,174	Gift in-kind from support organization, Borrowing from friends
No.10	¥141,538	Not disclosed	Withdrawal from savings
No.12	¥156,592	Not disclosed	Shopping with revolving payment of credit card Withdrawal from savings, educational loan
No.13	¥320,897	Not disclosed →¥770,997	Cashing from credit card Delay in payment of fees such as utility bills, medical insurance fees, and house insurance
No.14	¥233,249	¥590,666 →¥26,635	Cashing from credit card, shopping with revolving payment, remittance from relatives



MAJOR FINDINGS

INCOME, ASSET, RESPONSE TO SITUATION IN SHORT OF CASH (THOSE WHO HAVE BANKRUPTED BEFORE)

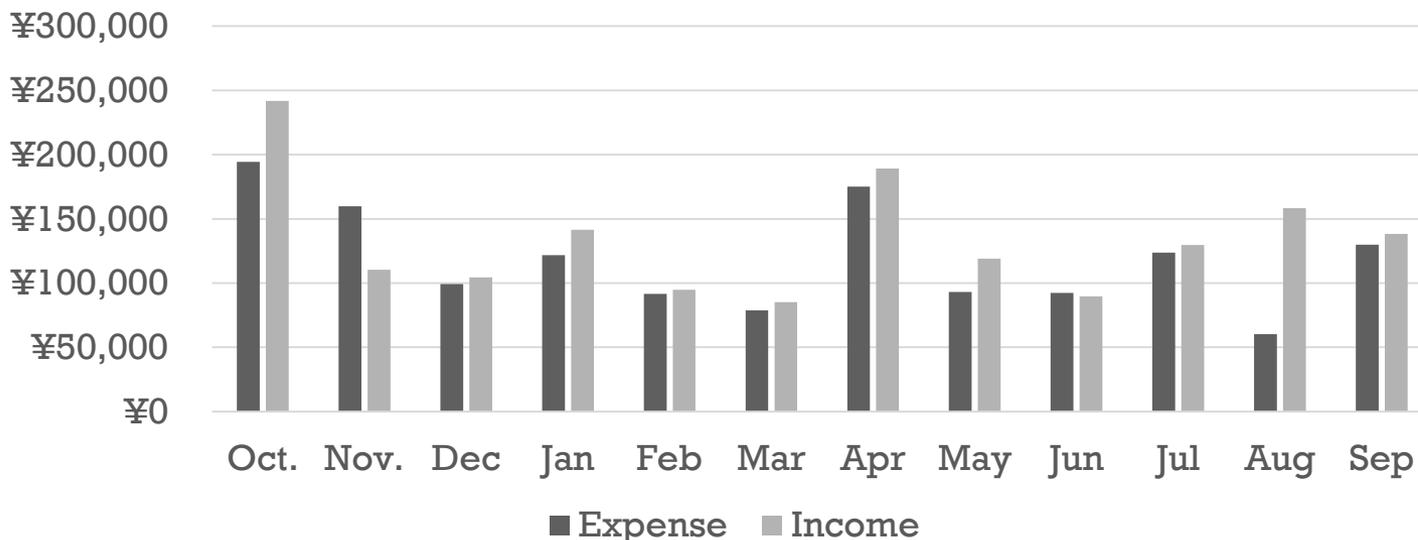
No.	Average monthly income	Asset (at the beginning and the end)	Response to situation in short of cash
No.1	¥139,568	¥176,544 →¥204,260	Withdrawal from savings
No.6	¥117,763	Not disclosed	Withdrawal from savings
No.7	¥100,630	Nearly zero	Delay in payment of monthly rent and cellular phone Skipping meals and using a foodbank
No.8	¥204,468	Nearly zero	Remittance from her son Installment payment
No.9	¥192,239	¥72,145 →nearly zero	Cashing from credit card, borrowing from her sister *She applied for bankruptcy during the study period
No.11	134,276	Not disclosed	Delay in payment of monthly rent and installment payment skipping meals and using a foodbank



INCOME VOLATILITY MAKE LIFE TOUGHER

- A part-time worker who are income volatile
 - He frequently changes his part-time jobs after ceasing public assistance. His monthly income is quite volatile (from ¥85,000 to ¥240,000).
 - He flew back to his hometown due to earthquake. / He had a traffic accident. → emergent expense and less income
 - Many delays in payment of monthly lent. He cut food cost.
 - He once lost consciousness but could not see a doctor. Although he wanted to become a scenario writer but gave up going to writers school. He could not fix his motorbike after accident.

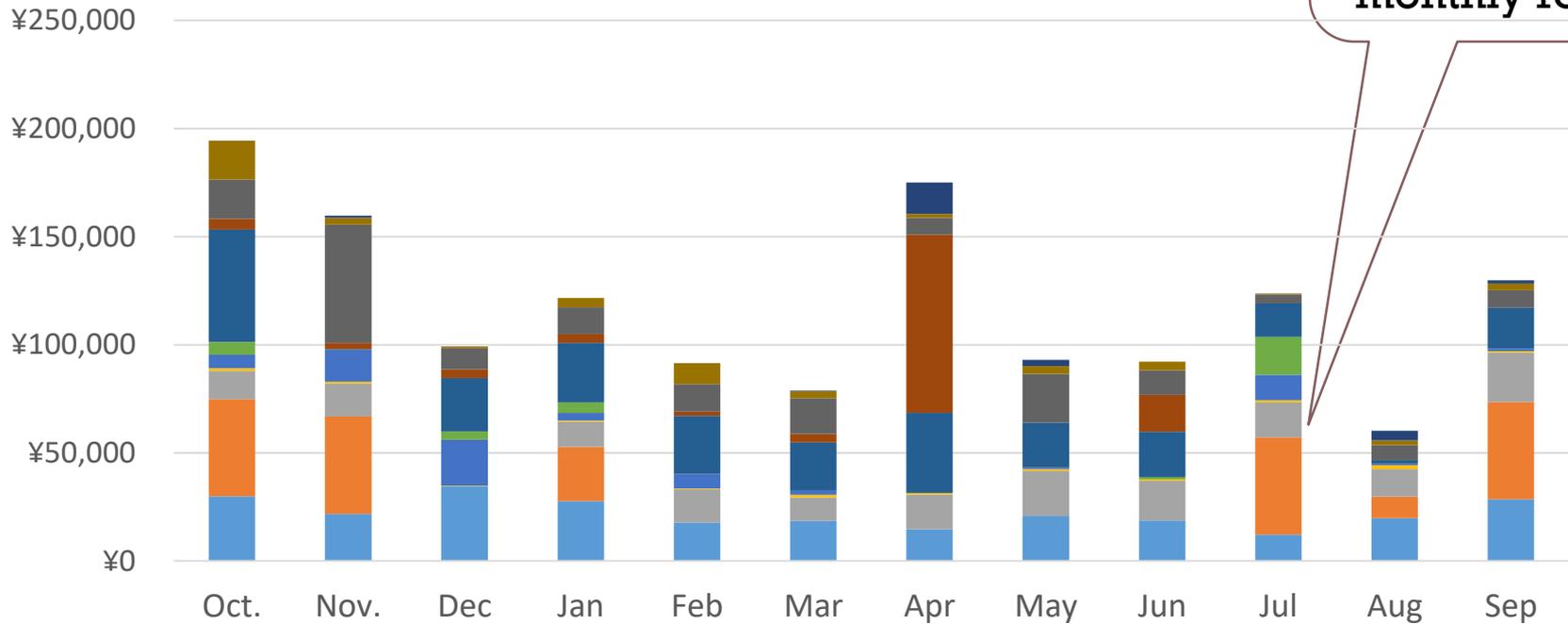
income and expense Oct. 2016 to Sep. 2017



INCOME VOLATILITY MAKE LIFE TOUGHER

- A part-time worker who are income volatile

Expense Oct.2016 to Sep.2017



Sometimes skips payment of monthly rent

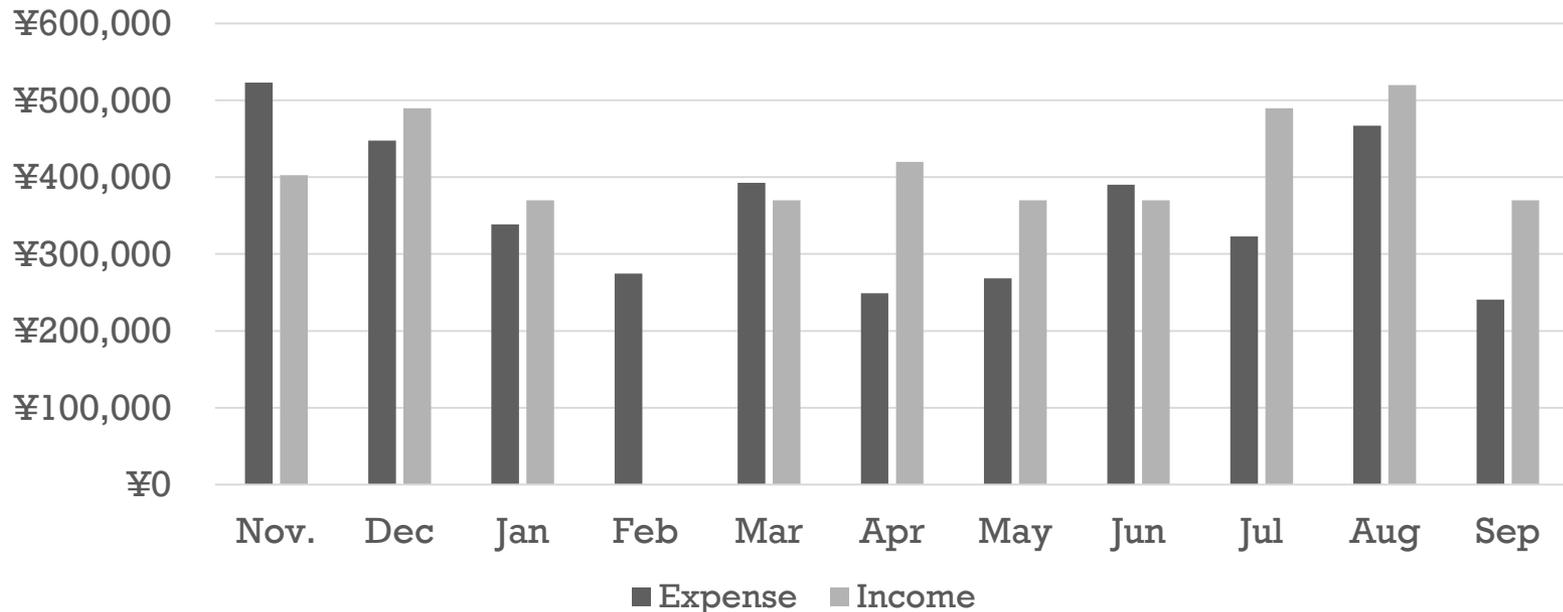
- Food
- House
- Utilities
- Interior
- Clothes
- Medical
- Transportation/communication
- Education
- Leisure
- Others
- Non-consumption



INCOME VOLATILITY MAKE LIFE TOUGHER

- **Withdrawal savings to supplement income every month**
 - Husband can no longer keep working due to illness; income source is wife's salary only
 - The family withdraws savings to supplement income every month. The family also uses revolving payment when shopping.
 - It is hard to change lifestyle immediately to cut expense.
 - The son entered a graduate school with education loan.

Income and expense Nov.2016 to Sep.2017

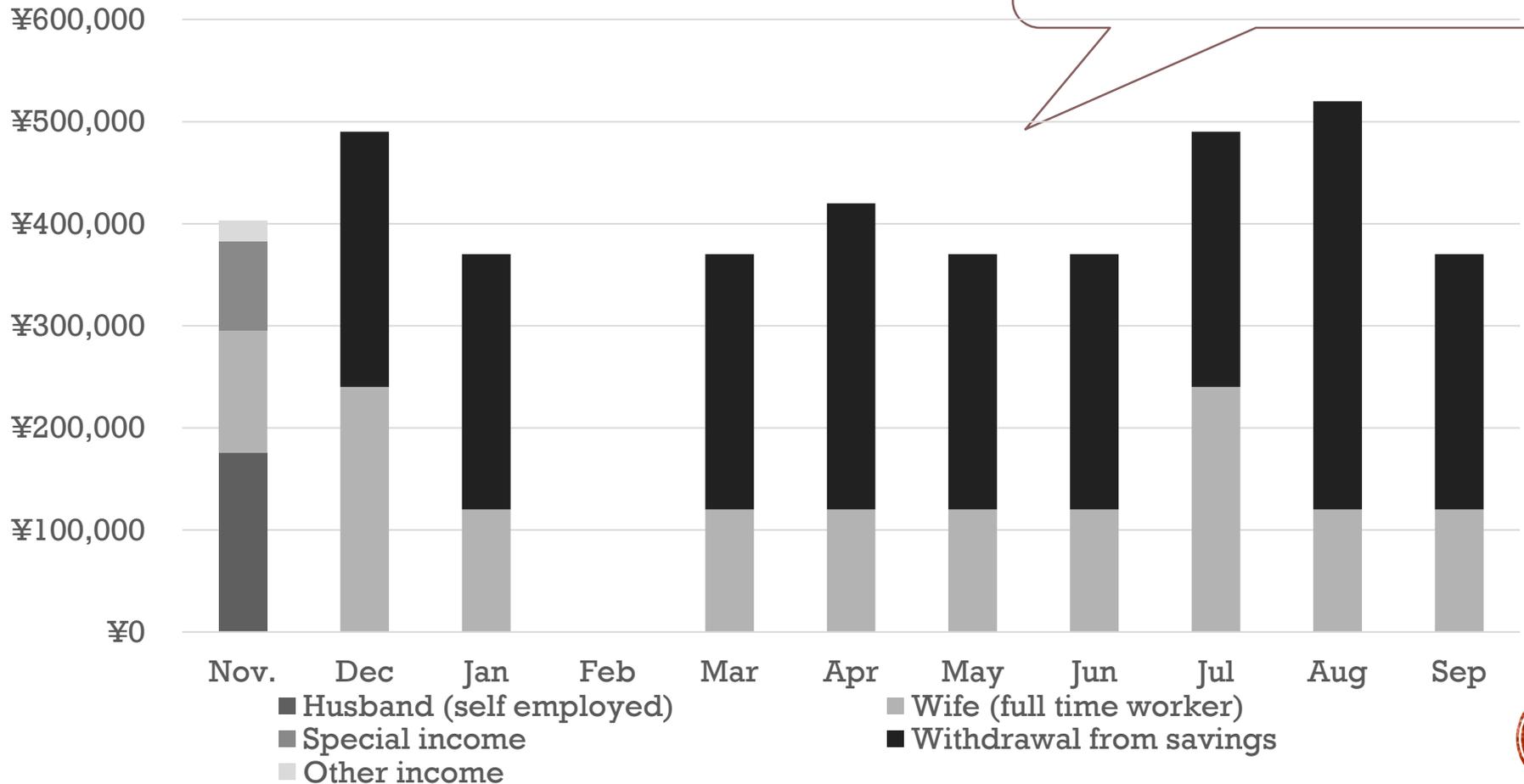


INCOME VOLATILITY MAKE LIFE TOUGHER

- Withdrawal savings to supplement income every month

Income Nov.2016 to Sep.2017

More than half of income comes from savings since Dec.2017

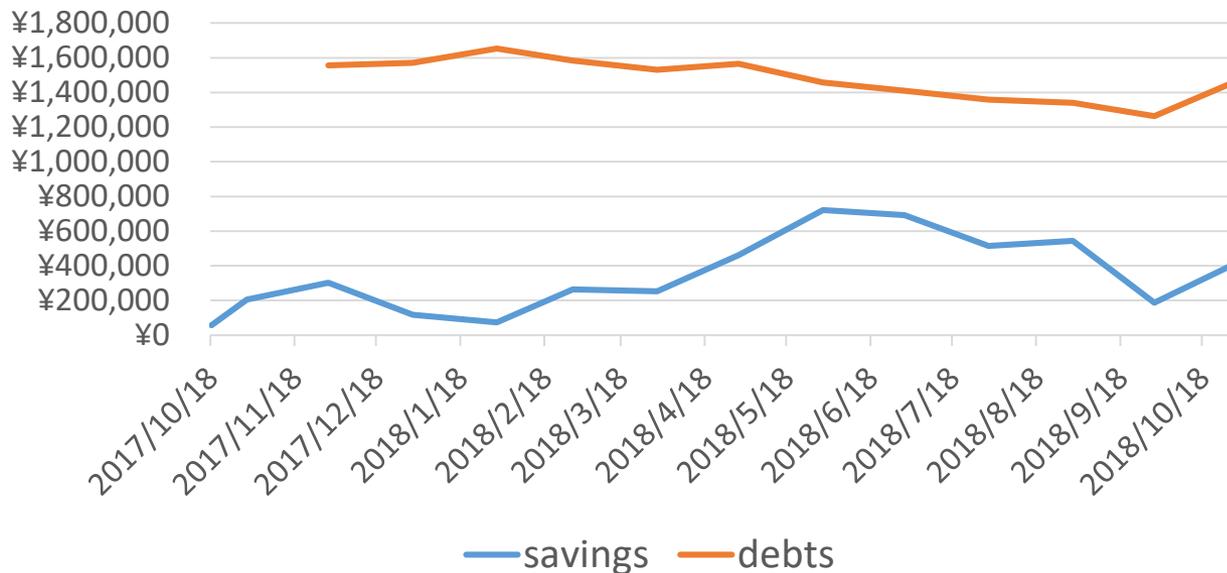


INCOME VOLATILITY MAKE LIFE TOUGHER

- **Foreigner in self employment**
 - **A married couple of foreigners. The wife runs a restaurant and the husband works at construction fields**
 - **They borrowed from microcredit but are delinquent. Restaurant business is slow and sales are quite volatile**
 - **Cashing from credit card is approaching the upper limit. Delinquency in payment of fees and bills is always seen.**
 - **Insufficient language ability to understand the meaning of bills and invoices**
 - **The daughter was struck her name off the school register because of delinquency of tuition**

Savings and debts Nov. 2017 to Oct. 2018

*data before Jan. 2018 was not fully uncovered



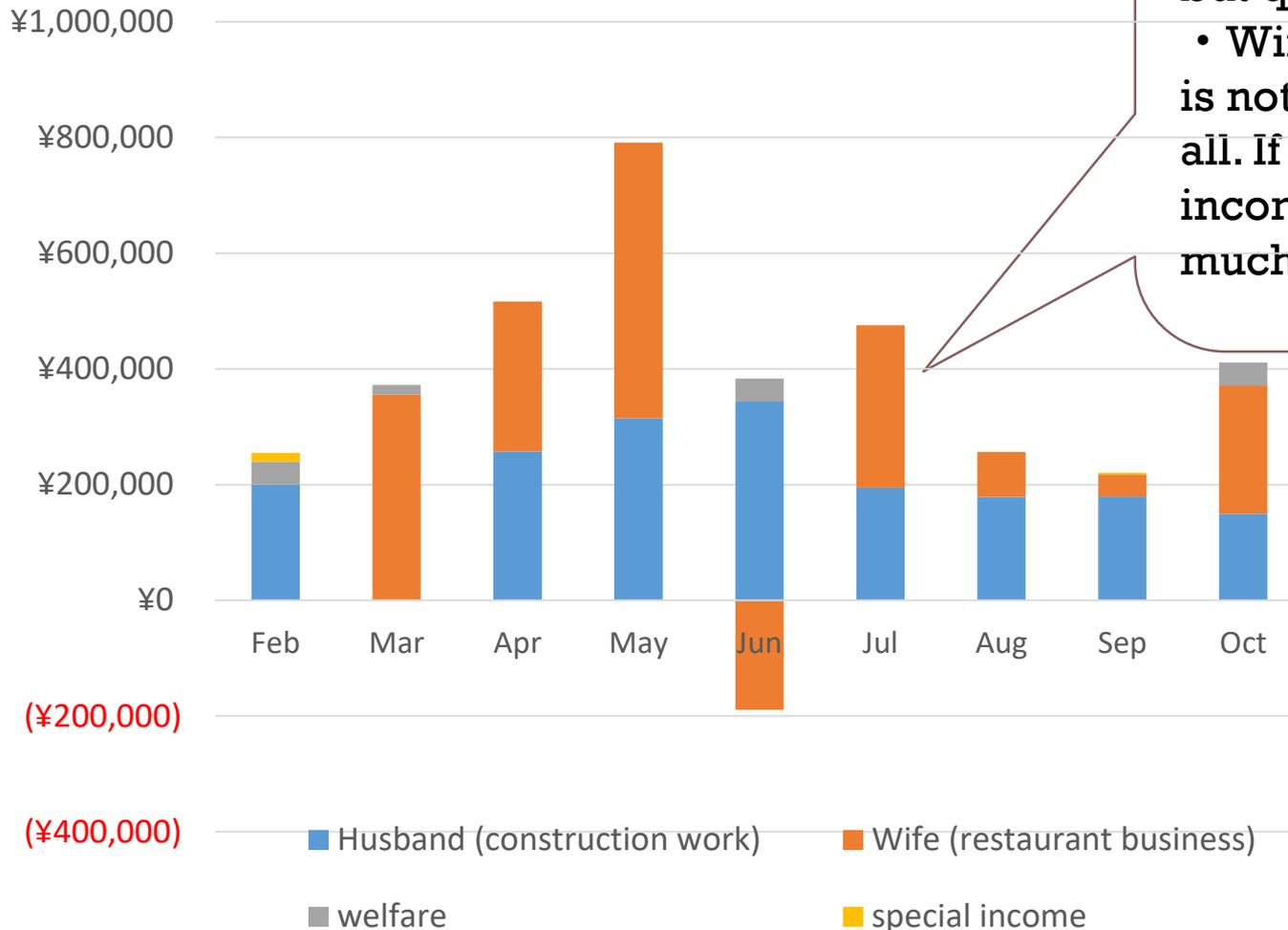
Much more debts than savings (debts don't include delinquencies and personal borrowing)



INCOME VOLATILITY MAKE LIFE TOUGHER

Foreigner in self employment

Income Feb. to Oct. 2018



- Average monthly income is ¥433,862, but quite volatile.
- Wife (=manager) is not paid wage at all. If she was paid, income would be much less.

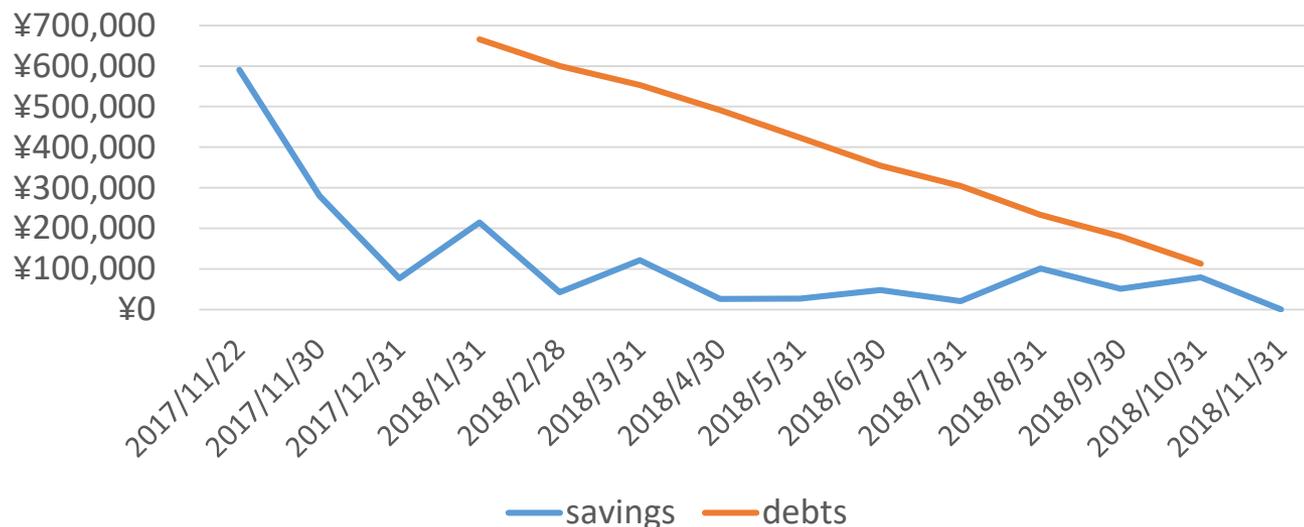


INCOME VOLATILITY MAKE LIFE TOUGHER

- Foreign part-time workers in debt
 - Married couple of foreigners working as a part-time worker at a restaurant
 - The husband's Japanese language is not well enough to communicate at financial institutions
 - Income does not fully cover household expense
 - Cashing from credit card. Repayment of debts is a heavy burden for the household tight budget.
 - Education and sports for their son also cost much
 - They recognize importance of budget management and try hard to decrease debt

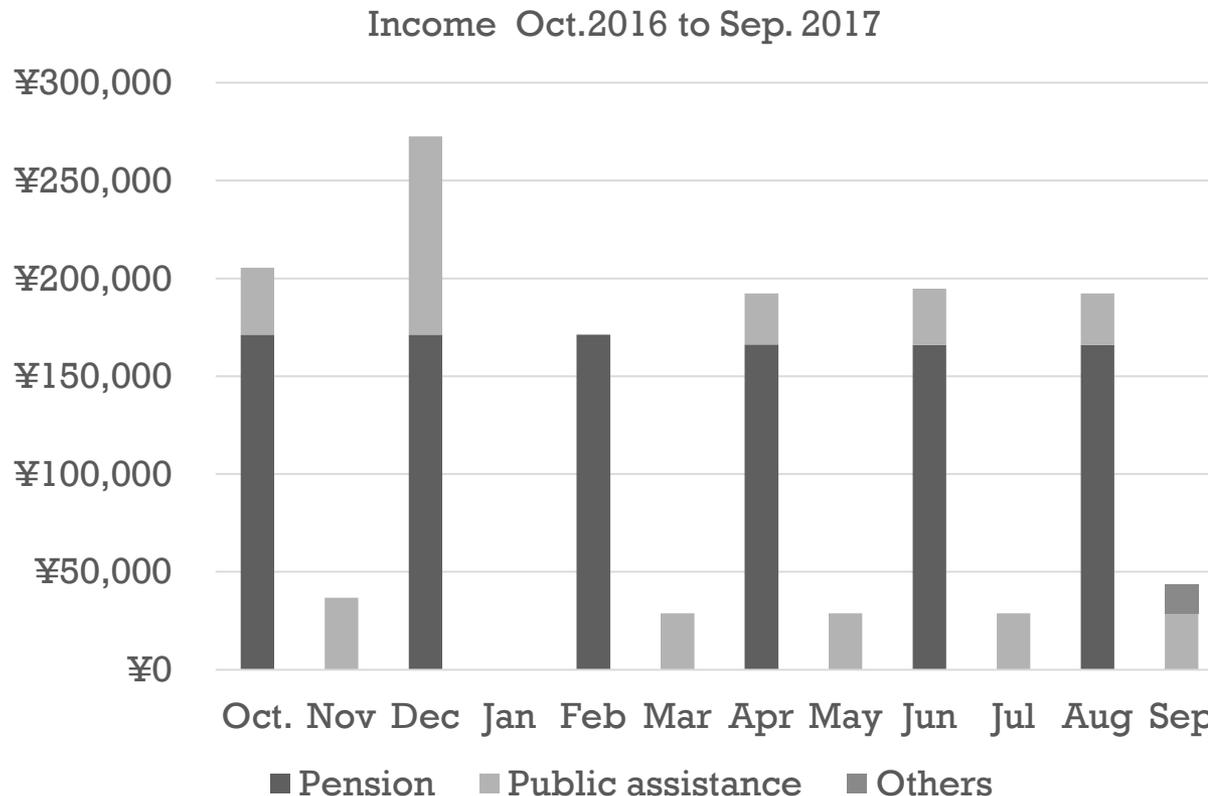
savings and debts Nov. 2017 to Nov.2018

*debt amount before Dec. 2017 is uncovered



INCOME VOLATILITY MAKE LIFE TOUGHER

- Recipients of public assistance and pension
 - Monthly amount of public assistance is basically the same
 - If a household receives both public assistance and pension, the amount of pension will be subtracted afterward. Pension is provided bimonthly, which amplifies volatility



An elder man who receives both pension and public assistance



INCOME VOLATILITY MAKE LIFE TOUGHER

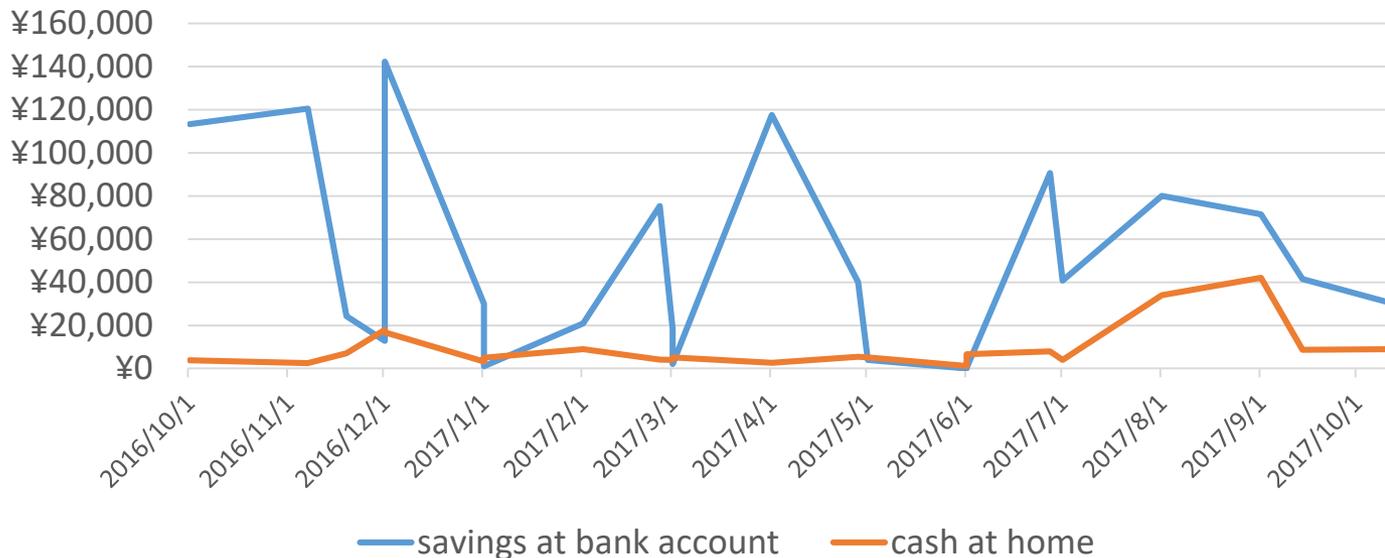
- Other cases (from the interview survey)
 - Single parent: lump sum of educational expense/ childcare allowance which is provided every 4 months/ insufficient income after divorce
 - Non-regular worker: volatile income from contingent and part-time job which swing working days and hours
 - Self-employed: after bankruptcy, became homeless/ as the business got stuck, severely indebted/ lost all property except their home after bankruptcy
 - Unemployment: after dismissed, contingent worker failed finding another job/ when laid off, a worker couldn't get employment insurance
 - Illness, injury, disability, care, death: became homeless due to illness and unable to work/ when injured during work, a worker didn't join a medical insurance/ lost a house in a fire, become the disabled and spent out all savings/ when husband dead, wife couldn't get any life insurance and pension/ left job to care elder mom and lost savings
 - Domestic violence victims: batterer borrowed under the name of victim/ DV victim became the mentally disabled and unable to work/ DV victim took refuge in a shelter and receive public assistance/ DV victim couldn't see a doctor in case she was found by the batterer



RESPONSE TO DEFICIENT INCOME AND EXCESS OVER EXPENDITURE

- **Vulnerability due to lack of savings**
 - No buffer to mitigate shock of incidents
 - Most of target households have almost no savings
 - Lack of chances to build assets and incentives of savings for low-income and needy people
 - People living on welfare are not allowed to have much savings, which prevents them from building fluid assets. They spent out money by intention.
 - Necessary to save systematically in case of major life events in the future

Savings Oct. 2016 to Oct. 2017



An elder man, who receives both pension and public assistance, never increases his savings during a year



RESPONSE TO DEFICIENT INCOME AND EXCESS OVER EXPENDITURE

- **Reliance on borrowing and delinquency**
 - Public microloans for welfare purpose are not widely known. Different implementation policies among local governments. Moreover, cumbersome paperwork and cosigner
 - Public loan for elderly guaranteed by pension is risky; even if a borrower becomes bankrupted, this loan would never be discharged.
 - Almost no private microcredit products
 - Low presence of informal finance
 - needy people tend to rely on easy option of money lenders
 - delinquency in payment of taxes, monthly rent and utilities

- **Limits on borrowing**
 - Limits of the total amount of borrowing up to a third of annual income after the amendment of the law to regulate money lenders of 2006
 - Recipients of public assistance and people who became bankrupted are generally unable to borrow
 - Elderly people living on pension, non-regular workers and homeless people were turned down of loans by banks (according to interview survey)

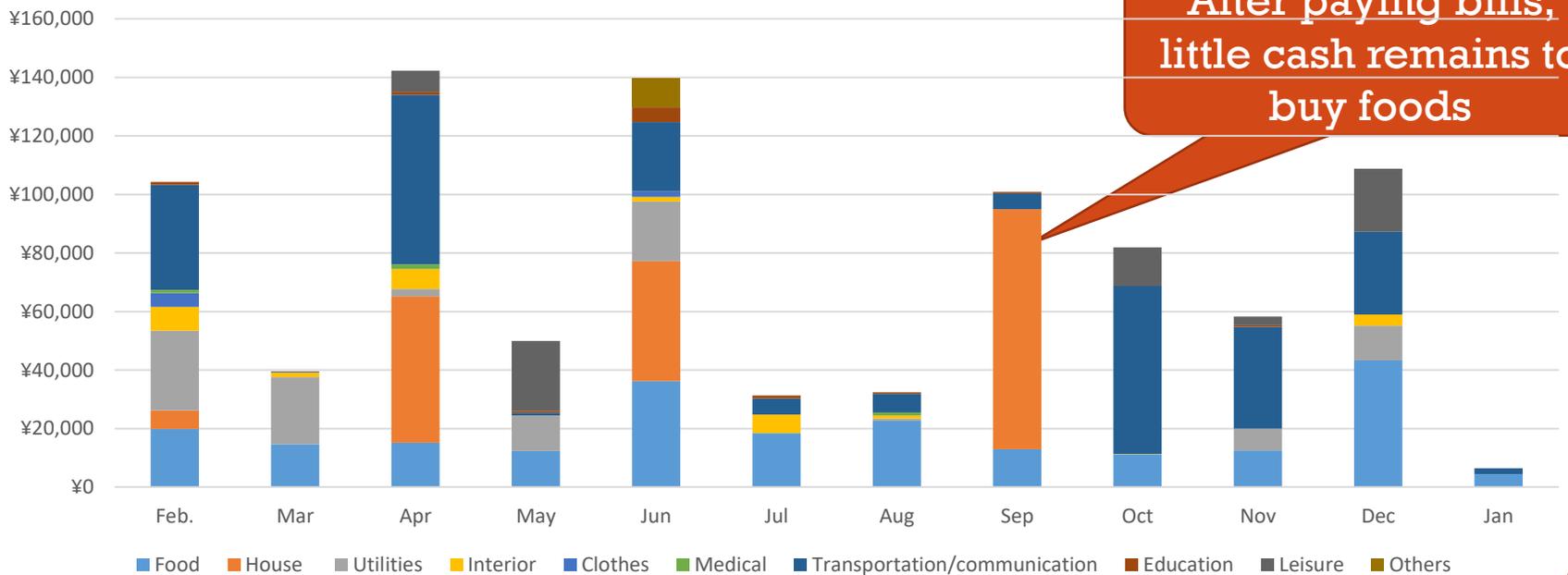
- **Issues which stems from delinquency in payment**
 - Blocking of electricity or cellular phone, evacuation from house and confiscation of wages
 - Delinquency of taxes will never be discharged even after bankruptcy



RESPONSE TO DEFICIENT INCOME AND EXCESS OVER EXPENDITURE

- Problems coming from delinquency of monthly rent and bills
 - A woman who receives public assistance has difficulty in planned expense due to mental disability. She pays as much as ¥30,000 a month for game play (because she is game addictive)
 - Monthly rent, electricity bill and cellular phone bill are often delinquent. She pays bills after being blocked of services.
 - She pays delinquent bills as she is demanded to pay. As a result, she loses cash to buy foods and has to rely on a foodbank.

Expense Feb.2017 to Jan.2018

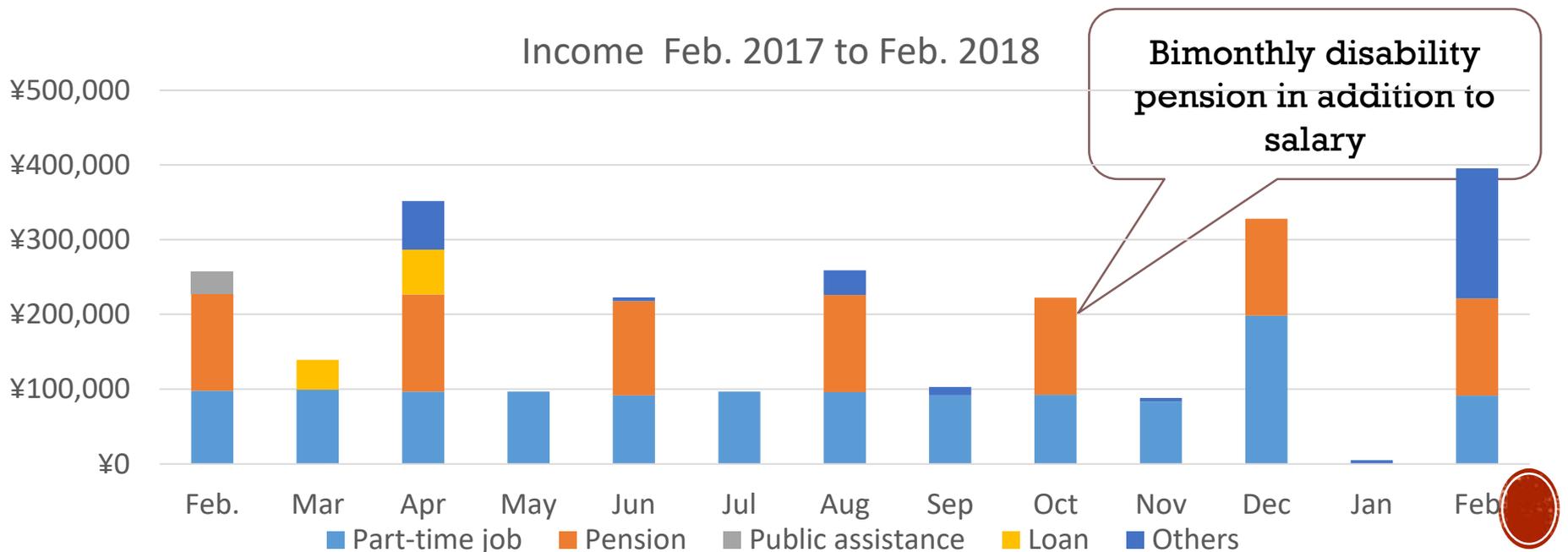


After paying bills, little cash remains to buy foods



RESPONSE TO DEFICIENT INCOME AND EXCESS OVER EXPENDITURE

- Risk mitigation through insurance and pension (including findings from interview survey)
 - Public pension fees and public medical insurance fees are very expensive for low-income people, who are often delinquent in payment
 - Many foreigners don't buy public medical insurance. They don't fully recognize whether they bought public pension.
 - Even if low-income people buy medical insurance, they have to pay 30% of medical cost—still expensive for them—which discourages them to see a doctor.
 - Pension is provided bimonthly, which exacerbates income volatility.
 - The disabled receive disability pension, which makes their lives stable.



MANAGING SKILLS OF HOUSEHOLD BUDGET

- A woman who started managing her budget using Excel spreadsheet after the experience of bankruptcy and public assistance. She succeeded in savings to buy a PC.
- An elder man who is not good at household budgeting asked for a public money guard service and deposited his bankbook.
- People with mental or developmental disability and addiction (such as alcohol, gamble and game) have risk of spending their money out without planning.
- Some foreigners don't fully understand the meaning of bills and the risk of delinquency due to insufficient language skills
- People in self employment are often difficult in differentiating business accounting from family budget. They don't understand whether their business is profitable.
→ necessary to improve or assist their management skills



INTERPLAY BETWEEN POVERTY/SOCIAL EXCLUSION AND FINANCIAL EXCLUSION

Illness, injury or caring family members



Laid off or leaving a job



Deficient savings, unable to manage budget, no insurance, weak social capital



Over-indebtedness, delinquency in payment, bankruptcy



Unable to borrow again, or confiscation of assets

Self employed having a hard time of running a business



Borrowing with high interest rate or delinquent in paying bills



Insufficient language skills and accounting skills



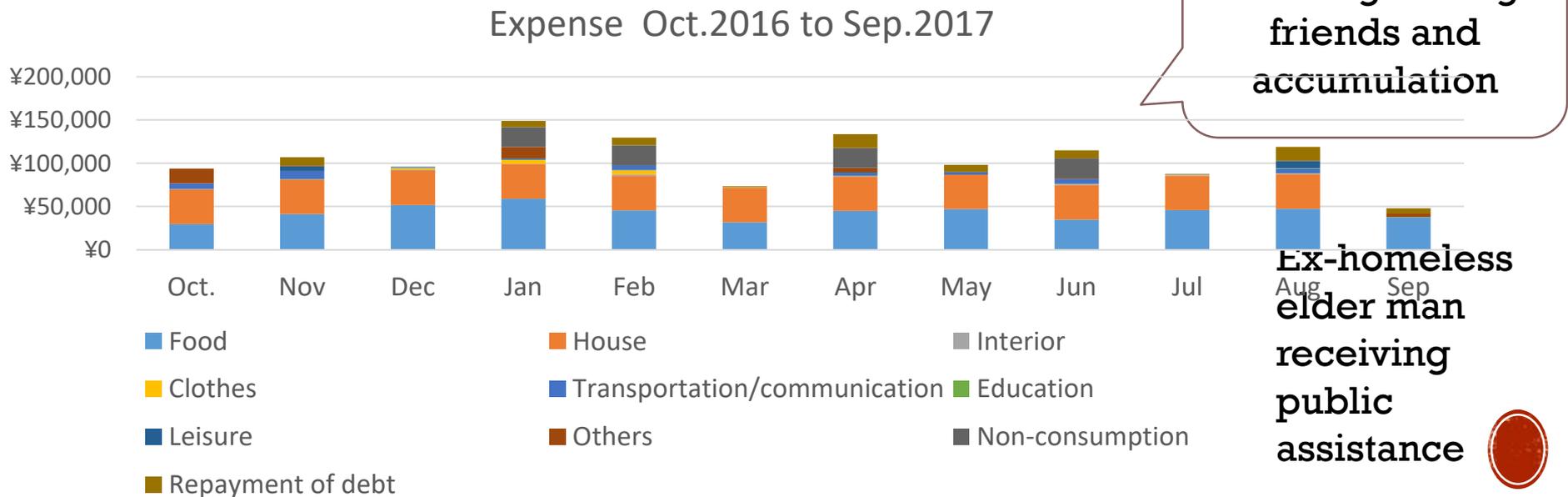
Insufficient support from relatives and friends



Left from school due to delinquency in tuition

SOCIAL CAPITAL AND INFORMAL FINANCE

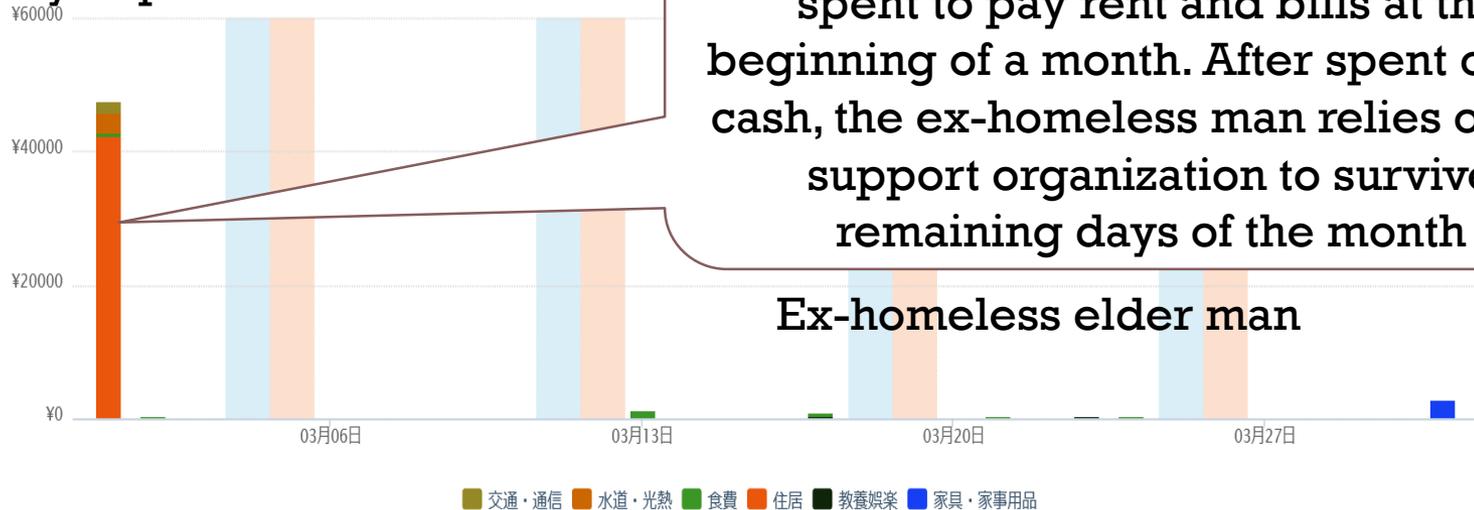
- Informal finance (family, relatives, friends and neighbors)
 - Most of people living on welfare are estranged from family and relatives and find no support
 - Some needy people borrowed from parents or friends (cases in interview survey)
 - Ex-homeless people personally lend and borrow small amount each other in a deprived community. They also accumulate money monthly to make a trip once a year.
 - Some foreigners keep close relations with their ethnic communities or relatives in their homeland. They are likely to receive financial support from the community.
 - Native Japanese tend to have weak social capital.



SOCIAL CAPITAL AND INFORMAL FINANCE

- Support from nonprofits and welfare institutions
 - The target households have some relations with support organizations and are not completely isolated.
 - Support organizations for homeless people sometimes provide food, meals, beds, cellular phones, etc. The customers can survive with such gift in-kind after they spent out all of cash.
 - Support organizations for debtors refer customers to lawyers or case workers
 - Foodbank organizations provide food to needy people to help make ends meet
- Target households' living situations depend on relation with support organizations

日ごとの支出
Daily expense



Most of public assistance money is spent to pay rent and bills at the beginning of a month. After spent out all cash, the ex-homeless man relies on the support organization to survive remaining days of the month

Ex-homeless elder man



DISCUSSION: FINANCIAL EXCLUSION IN JAPAN

- What kind of financial exclusion exists in Japan?
 - Notion of financial exclusion: The process of financial exclusion is the process whereby people face such financial difficulties of access or use that they cannot lead a normal life in the society to which they belong (Gloukoviezoff 2011)
- Appropriate tools to smooth income and expense and to help build assets
 - Chances and incentives of savings
 - Microloan with no or low interest rates for welfare purpose, financial consulting and flexible repayment
 - Delinquency in payment of health insurance and pension fee, medical cost
 - people who cannot cover risks well
 - bankruptcy due to high interest rate loan and delinquency in payment
- Issues along public assistance
 - Limit on savings prevents economic self-reliance and asset building
 - No borrowing makes emergent expense difficult
 - Assisting people who have limited skills of managing household budget is not well prepared
- Assist to people who have special issues
 - Foreigners, domestic violence survivors and homeless people



DISCUSSION: COMPARISON WITH FD IN OTHER COUNTRIES

- **Social capital and roles of informal finance**
 - A variety of informal finance tools such as savings under the mattress, money guard, lending to neighbors, borrowing from relatives/friends, shopping on credit, advance on salary, sales on credit, ROSCA savings, ASCA savings and loan from savings club are used in India and Bangladesh. Mutual support with neighbors are quite active. Loans from banks and MFIS occupy only tiny shares.
 - Savings at home and borrowing from family and relatives are popular in Japan (however, people living on welfare are unlikely supported by relatives).
 - Less sorts and shares of informal finance in Japan. However, ex-homeless people and foreign people have their own communities where they help each other.
 - Almost no private microfinance institutions. Public microcredit loans for welfare purpose do not work well.
 - needy people rely on money lenders and cashing from credit cards.



DISCUSSION: COMPARISON WITH FD IN OTHER COUNTRIES

- Vulnerability coming from little savings (common point with U.S. Financial Diaries)
 - U.S. FD study showed 40-50% of households had no emergency savings.
 - This FD study in Japan also saw most of target households had no savings. The interview survey also showed more than a half of households had no savings.

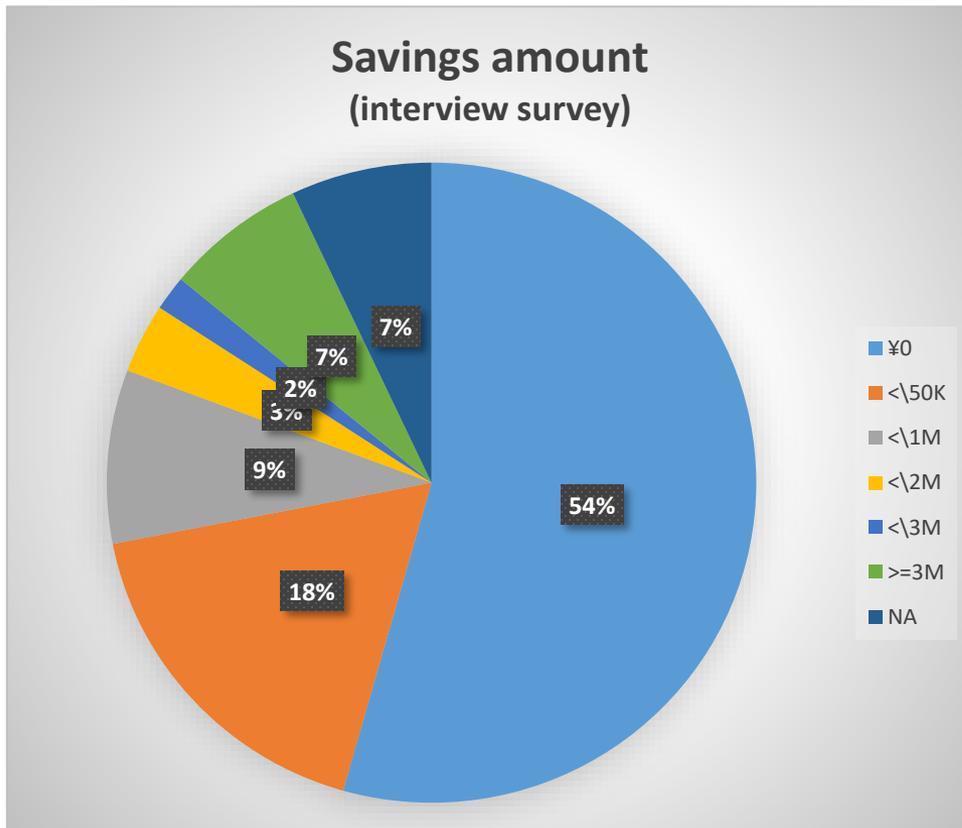
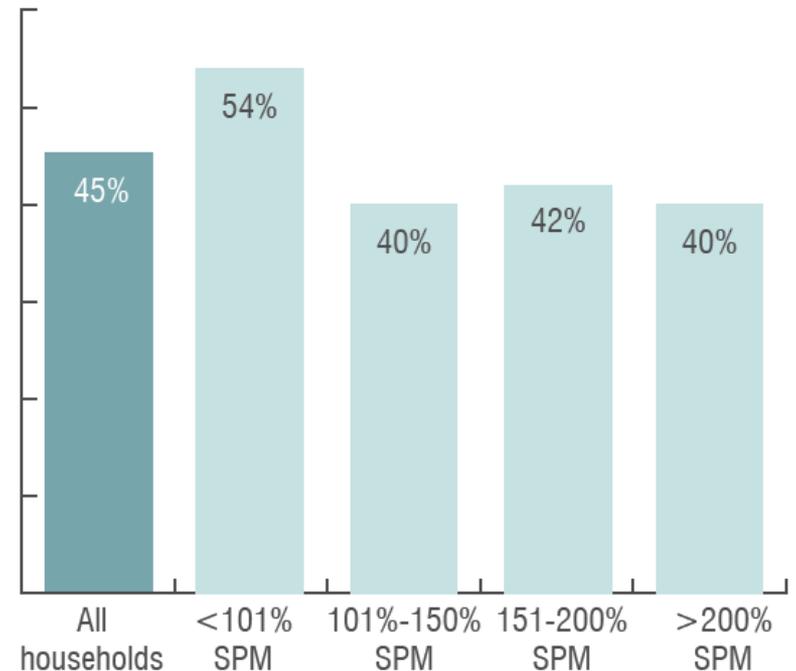


FIGURE 3: Percentage of Households with \$0 Emergency Savings, by Income Level



DISCUSSION: NECESSITY AND FEASIBILITY OF MICROFINANCE IN JAPAN

- Demand of consumer finance: smoothing income and expense, asset building and risk mitigation
 - Covering temporary income decrease and emergent expense
 - Less choices of informal finance and reliance on money lenders
 - Necessary to support people with a variety of specific needs
 - Public pension and medical insurance don't perfectly help needy people mitigate risk

→savings, loans and insurance for living (not for business), and financial consulting (to prevent over-indebtedness or bankruptcy) need to be improved

- Demand of business finance: loan and financial management for people in self employment
 - Just providing money is not enough to address
 - Finely tuned technical assistance such as differentiation between business accounting and household finance, basic accounting literacy, financial management skills are needed

→providing both money and technical assistance



LIMITATION OF THIS STUDY

- Small number of target households
 - It was not easy to recruit target households
 - The study findings cannot be generalized due to small number (=nature of Financial Diaries)
- Bias of demographics
 - Most of target households are sole and receive public assistance
 - Target households were recruited through support organizations, so we couldn't see needy people who are completely isolated from any support.
 - Single parent households, domestic violence survivors, immigrant workers, victims of natural disasters, residents of welfare facilities, victims of illegal loan sharks and discriminated communities were not covered (some of whom were covered in the interview survey).
- Bias of areas
 - This study was conducted only in urban areas (Tokyo, Chiba, Osaka, etc.), without local cities and rural areas.

→it is difficult to immediately draw a generalized recommendations or implications from this study results.



THANK YOU FOR LISTENING

- Major reference

- Morduch, Rutherford, Collins and Ruthven (2009) *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*, Princeton University Press. (translated into Japanese in 2011)
- Bankable Frontiers Associates (BFA) Financial Diaries
<http://financialdiaries.com/>
- Microfinance Opportunities (MFO)
<https://www.microfinanceopportunities.org>

- Waiting for your comments

- Takashi Koseki
- School of Business Administration
- Meiji University
- koseki@meiji.ac.jp
- 1-1 Kanda-Surugadai, Chiyoda-ward, Tokyo 101-8301 Japan

