

Financial inclusion and financial gerontology in Japan's aging society

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SUMMARY Japan, the world's most rapidly aging society, faces increasing financial strains related to personalized dementia care. The government has shifted its focus from prevention to coexistence with dementia, as outlined in the 2023 Basic Act on Dementia. Emphasis on financial inclusion aligns with the G20's 2019 "Fukuoka Policy Priorities on Aging and Financial Inclusion", which addresses financial exclusion due to cognitive decline and poor financial literacy. While economic activity among older adults is already hampered by legal challenges and risks associated with dementia, outcomes are expected to worsen as the assets of older adults with dementia are projected to reach 215 trillion JPY (\$1.4 trillion USD) by 2030. Government measures and research in financial gerontology advocate for protecting older adults and promoting flexible financial practices. Enhanced efforts and shared research outcomes are crucial for Japan to be a leader as an advanced aging society.

Keywords dementia, policy, aging

To the Editor,

Japan has the highest aging rate worldwide, with 29.0% of the population aged 65 and over in 2022 (1). Given this situation, Japan has implemented various policy responses to address aging, as well as encouraged conducting research on the aging society (1). The number of patients with dementia is also on the rise: it is estimated to reach 7 million by 2025, which, coupled with Japan's declining birthrate, has created an increasingly difficult financial situation for healthcare insurers and providers (2,3). Providing personalized medical care to prevent dementia in all citizens is not considered a realistic solution. Therefore, in recent years, the Japanese government has focused on coexistence with dementia, rather than prevention. In the deliberative process of the Basic Act on Dementia of 2023, the phrase "the people should strive for prevention" was deleted from the law (3).

Under these circumstances, Japan has recently emphasized "financial inclusion" of older adults and people with dementia. Financial inclusion refers to the concept of ensuring everyone is able to access and benefit from financial services, and is consistent with the United Nations Sustainable Development Goals (SDGs). Financial inclusion of older adults, in particular, has

gained attention since the release of the "G20 Fukuoka Policy Priorities on Aging and Financial Inclusion" from the subordinate organizations of G20 in Japan during June 2019 (4). This Policy Priority proposes strategies to address "financial exclusion", a concept that prevents older adults from accessing financial services due to limited financial literacy, cognitive decline, and social isolation (4) (Figure 1). The challenge is to prevent such financial exclusion among older adults in Japan.

In fact, financial literacy has been observed to decline from the late 60s onward in this population (5). In addition, if a person's cognitive function declines beyond a certain level, he or she is legally considered incapable of performing contractual acts in Japan. Therefore, the purchase or sale of goods or services may become legally invalid if the customer is discovered after the transaction to have dementia. Such lawsuits are on the rise in Japan, causing companies to refrain from high value transactions with older adults for fear of the risk of dementia (3). Given that in Japan, people with lower incomes are reported to be at higher risk of dementia, among other conditions (6), those who need financial services may be excluded from transactions due to cognitive decline.

Indeed, several older adults are financially insecure,

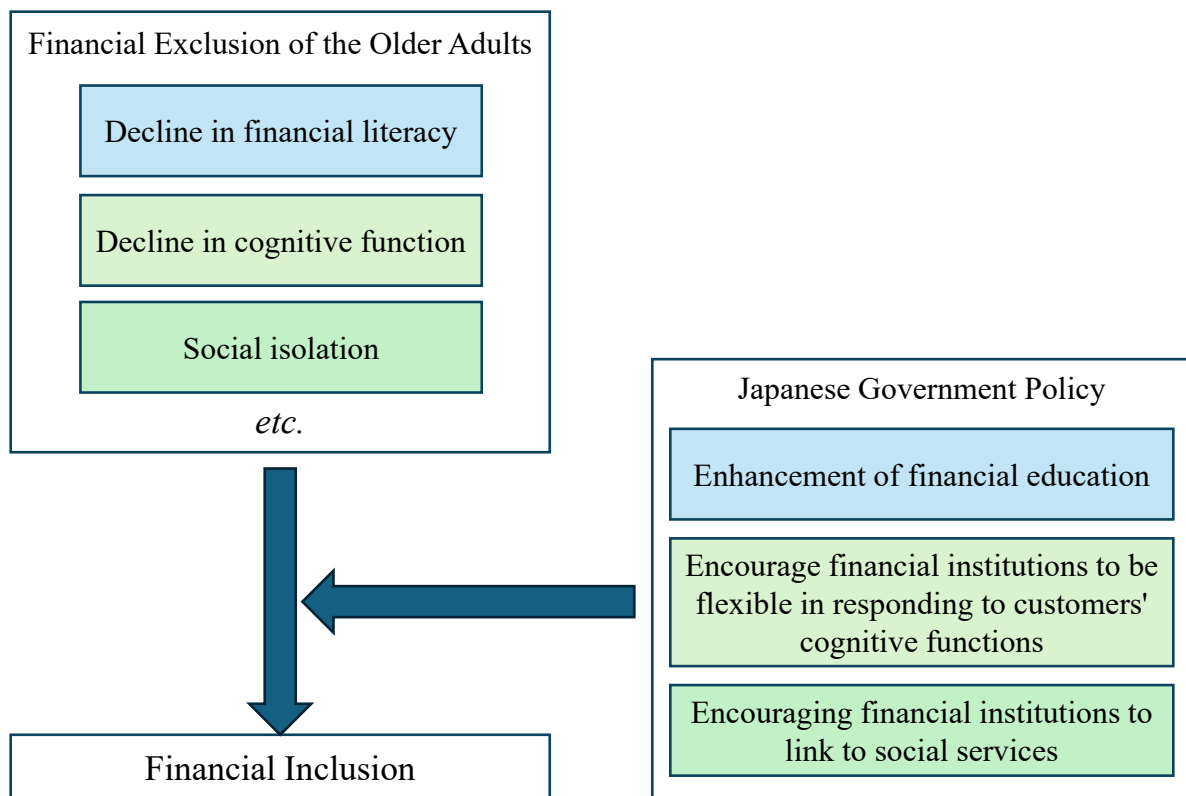


Figure 1. Japanese government policies for financial inclusion of older adults.

and are concerned about their inability to properly manage their assets due to dementia or cognitive dysfunction (7). Moreover, the assets held by older adults with dementia in Japan are projected to reach approximately 215 trillion JPY (\$1.4 trillion USD) by 2030 (3). While ensuring the protection of these assets, the private sector should be prevented from applying excessive brakes on the economic activities of the elderly with residual cognitive functions. Several government measures and research activities in the field of financial gerontology are underway to address the financial inclusion of older adults in Japan.

The first mention of cognitive decline and finance among this population, as well as the first use of financial gerontology in a government document can be found in the Outline of Measures for an Aging Society, a policy package formulated in 2018 (8). Subsequently, the Financial Services Agency's Financial System Council issued a report in 2019 stating that older adult customers should be treated according to their respective cognitive functions rather than their age, and that protections for these customers should be reviewed in light of developments in financial gerontology (9). Furthermore, the Council issued a report in 2020 that calls for financial institutions to be more flexible when dealing with older adult customers with cognitive decline over the counter (10).

Following this, in April 2023, a public call was made requesting up to 350 million JPY (\$2.3 million USD) in research support under the direct control of the Cabinet Office for the purpose of "developing social technologies to support autonomous economic activities based on residents' cognitive functions" (3). In light of these trends, the new Outline of Measures for an Aging Society, formulated in September 2024, further incorporates content related to the financial inclusion of older adults. Specifically, it includes the promotion of understanding of finance and economics among older adults in conjunction with consumer education, the promotion of the development of AI technology to support financial transactions based on cognitive function, and the promotion of financial institutions' cooperation with protection and welfare agencies for the elderly with cognitive decline (11).

In order for Japan to become a role model for the world as an advanced aging society, government initiatives on financial inclusion and research in the field of financial gerontology should be further promoted and the results widely shared.

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