WORKING PAPER #2

INNOVATIONS IN FINANCIAL INCLUSION:

PRELIMINARY LESSONS FROM THE US AND THE UK FOR JAPANESE SOCIETY

Japan NPO Center

June 2016

MetLife Foundation

日本NPOセンター

Working Paper #2

INNOVATIONS IN FINANCIAL INCLUSION: PRELIMINARY LESSONS FROM THE US AND THE UK FOR JAPANESE SOCIETY

Executive Summary

For this Working Paper 2 (WP2) on financial inclusion, Japan NPO Center reviewed financial inclusion efforts in the US and the UK to gain lessons for the Japanese situation described in Working Paper 1 (WP1)[1], in an effort to create some building blocks to better understand the state of financial inclusion/exclusion in Japan that we believe would lead to a necessary policy discussion.

Our learning and recommendations show that:

- The concepts of “underbanked”, “financial security” and “financial health” can be introduced to the Japanese lexicon as well as “financial inclusion/exclusion” to test which concepts/terms best identify and capture the increasing needs that are emerging in Japanse society. It is probably advisable to start going beyond the narrow definition of financial inclusion/exclusion to fully capture the current needs, especially around the “financial service vacuum”.[2]

- Baseline research on the underserved will be instrumental in Japan, as it was in the US in forming approaches to unbanked and underbanked populations. Since the lack of basic information of financial inclusion and exclusion is a major inhibiting factor to form a comprehensive approach, information and data gathering with a good strategy would be useful.

- Privately-initiated policy discussion forums will be very useful to deepen understanding as well as to engage in policy proposal debates on the issue of financial inclusion/security/health.

- An “Integrated Service Delivery” (ISD) approach that combines lending with financial coaching and consultation will be useful.

- Innovation using ICT (Information and Communications Technology) and funding instruments can utilized.

As mentioned in WP1, the concept of financial inclusion has not yet gained broad understanding among policy makers, the financial sector, mass media and the public in Japan. Now that related terms with broader focus have been introduced in the US and the UK, most notably financial security and financial health, we can start experimenting with these different terms to see which will work best for the Japanese context, in fostering the much-needed discussion of financial inclusion.

---

1 Japan NPO Center, “Working Paper 1 : Financial Inclusion and Japanese Society”, March 2016.

2 As described in WP1 (p.23) as well as in Introduction below.

1. Introduction

In Working Paper 1 (WP1) on Financial Inclusion, Japan NPO Center pointed out that although the concept of financial inclusion may still be foreign to most Japanese people, Japan is witnessing phenomena from which we can construe that a growing number of people in Japan is at risk of financial exclusion. Gone are the days when the conventional wisdom of “everyone is middle class” prevailed. These days, newspapers regularly report on the poor, “child poverty” has become a big topic of concern for many with public discussions taking place on different occasions, and books on poverty and inequality in Japanese society are published almost every month.

In WP1, women, youth and children, the elderly and non-Japanese residents were highlighted as financially vulnerable groups. WP1 also described responses by the government as well as private actors, including nonprofit organizations, cooperatives and other social sector institutions. In particular, the Law for Supporting the Independence of People in Need, which was enacted in 2013 and took effect in 2015, was introduced as a comprehensive legal and policy measure to strengthen support for people who were not receiving welfare but had difficulties in identifying other public support programs that met their needs.

A key finding of WP1 is that there is a “service vacuum” for a low-income segment of the population which sits between high to mid-income people with access to the regular financial services on the one hand, and very low income people who are eligible to receive welfare on the other.

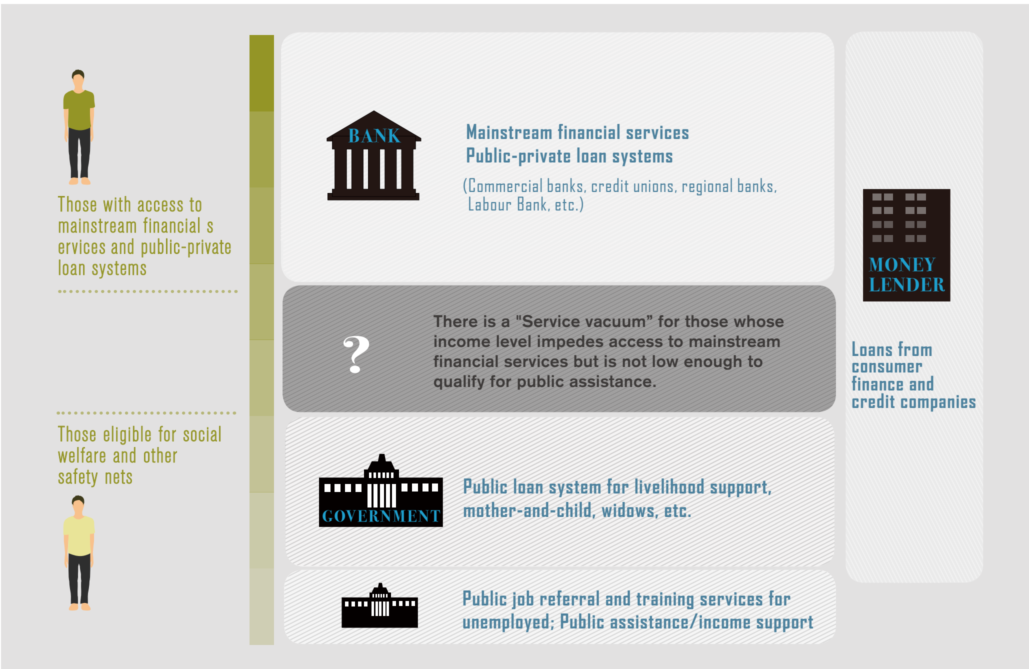

Figure 1 : Financial Service Vacuum [3]

3 Japan NPO Center, “Working Paper 1 : Financial Inclusion and Japanese Society”, March 2016

For this Working Paper 2 on financial inclusion, Japan NPO Center reviewed the efforts around financial inclusion in the US and the UK to gain lessons for the Japanese situation described in WP1. In particular, our interest revolved around the question of how we can facilitate policy and public dialogue on financial inclusion issues so that they can be more explicitly included in the policy agenda of the Japanese government. The WP1 described the existence of a financial service vacuum, but how can this be verified (or refuted), and if it does exist, what kind of measures will unearth and provide solutions to the myriad issues that reside in the vacuum? Which issues are being addressed by the existing legal and policy measures, and which are not? This WP2 will not answer these questions, but it should at least create some building blocks to better understand the state of financial inclusion/exclusion in Japan, which we believe would lead to a necessary policy discussion.

More specifically, as far as this WP is concerned, two key questions are posed:

- **i.** Are there useful concepts that can help Japanese society better understand the multitude of emerging issues around financial inclusion/exclusion?
- **ii.** Are there useful tools and instruments that can be replicated in Japan to serve as a springboard for solutions to financial inclusion issues?

With these key questions in mind, we turn our attention to the US and UK examples.

2. Major Findings – Conceptual Innovations

2.1. Concept of “Underbanked”

In the US, the Federal Deposit Insurance Corporation (FDIC) and Consumer Financial Protection Bureau (CFPB) are two key government institutions involved in financial inclusion efforts at the federal government level.

Traditionally, the FDIC’s focus is consumer protection in the field of financial services and products, and its three pillars are Consumer Assistance and Information, Financial Education and Literacy, and Community Affairs. FDIC maintains a website, “EconomicInclusion.gov”, and manages several initiatives that include: a) the development of a pilot project of affordable lending; b) promotion of financial inclusion policy through various kinds of committees and networks; c) financial education to improve the financial literacy of the public through the MoneySmart online program; and d) surveys on the present situation of financial inclusion, such as the National Survey on Unbanked and Underbanked Households and research on Alternative Financial Services.

After the global financial crisis in 2008, the CFPB was established to protect consumers of financial services. The CFPB’s mission is to “help consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives.” In order to achieve this goal, the CFPB is working in the following fields: a) the promotion of fair lending through monitoring, awareness raising and dissemination, and settlement of complaints; b) the promotion of financial education and literacy through publishing guidelines and reports; and c) the enhancement of financial capability through publishing various kinds of materials.

Although the FDIC and CFPB are not established to solve financial exclusion problems as such, their work in this realm has been expanding. Furthermore, the policy agenda for financial inclusion has become more diversified. According to an interview with Aspen Institute IFS, the US policy agenda for financial inclusion today is not limited to the protection of consumers and the regulation of financial industries, but includes issues related to retirement pension, unemployment, health insurance, affordable housing, and welfare. Accordingly, many other government organizations and agencies are also engaged in the financial inclusion agenda, such as the Department of Health and Human Services, the Department of Labor, the Department of Housing and Urban Development, the Department of Veterans Affairs, the Internal Revenue Service, the Department of the Treasury, the Federal Reserve Bank and the US Securities and Exchange Commission.

In 2009, the FDIC published a report, titled "FDIC Survey on Banks' Efforts to Serve the Unbanked and Underbanked."[4] The FDIC conducted this survey to comply with Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 ("Reform Act") that required it to conduct ongoing surveys of banks on their efforts to serve the unbanked. The Executive Summary of the report emphasized the need to conduct a regular survey as:

> Millions of Americans … are unbanked or underbanked and lack access to banks or are not fully participating in the mainstream financial system. While there are few statistics available on the actual number of unbanked and underbanked individuals and households in the United States, some estimates indicate that up to 10 percent of American families are unbanked and that a substantial share of the population may be underbanked.

The FDIC hoped that "these survey results will help better inform policymakers and the industry about economic inclusion issues, and promote the goal of ensuring that all Americans have access to basic, safe, and affordable bank services."[5]
.

While the 2005 Reform Act only mentions the unbanked, the survey expanded the scope to include "underbanked." The report has the following description[6]:

- An estimated 7.7 percent of U.S. households, approximately 9 million, are unbanked. These households do not have a checking or a savings account.
- In addition to the unbanked households, an estimated 17.9 percent of U.S. households, roughly 21 million, are underbanked. These households have a checking or savings account but rely on alternative financial services. Specifically, *underbanked households have used non-bank money orders, non-bank check-cashing services, payday loans, rent-to-own agreements, or pawn shops at least once or twice a year or refund anticipation loans at least once in the past five years.* (Italics added)

With this impetus to better inform policymakers and the financial industry about the state of financial inclusion issues, the FDIC started to conduct the survey biennially. The 2013 report has a newer definition of "underbanked" households as those which "have an account but have also obtained financial services and products from non-bank, alternative financial services (AFS) providers in the prior 12 months."[7] The report then updates the numbers for 2013 and points out that 7.7% of US households, or nearly 9.6 million households composed of approximately 16.7 million adults and 8.7 million children, are "unbanked;" and 20.0 % of U.S. households, which translates to approximately 50.9 million adults and 16.6 million children, are "underbanked."

---

4 https://www.fdic.gov/unbankedsurveys/unbankedstudy/FDICBankSurvey_ExecSummary.pdf
5 https://www.fdic.gov/HOUSEHOLDSURVEY/2009/index.html
6 Federal Deposit Insurance Reform Conforming Amendments Act of 2005, https://www.ncua.gov/Resources/Documents/LCU2006-05ENC2.pdf
7 https://www.fdic.gov/householdsurvey/2013report.pdf

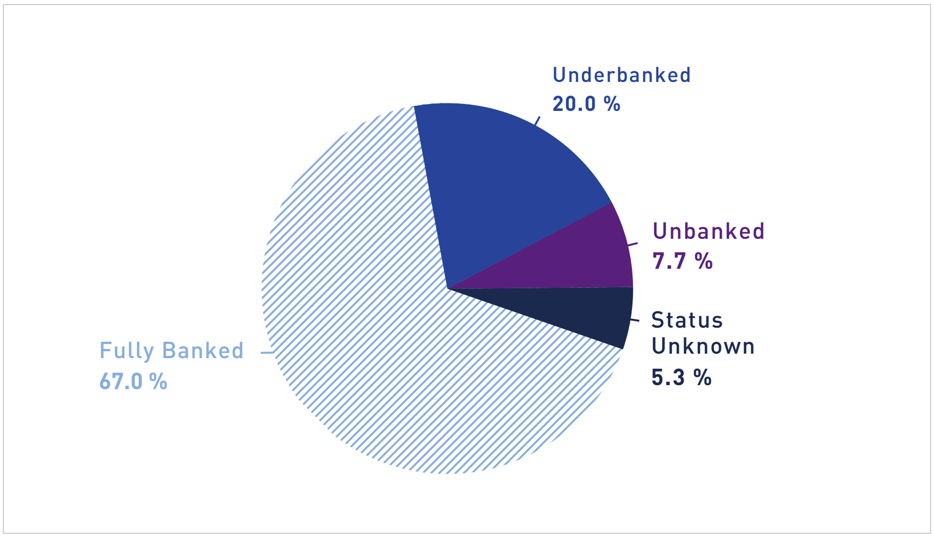

Figure 2 : Banking status of US households, 2013

This review reveals that the focus of financial inclusion policy and practice in the US has expanded from the unbanked to the underbanked. From this perspective, target financial services and products should not be limited to bank account and loans, but be extended to credit cards, transactions, loans for housing or education, insurances, pensions, etc. Existing research in the US shows that those financially at risk tend to use high risk, high cost, and unsustainable products and services from non-financial institutions, such as payday lending, other small dollar lending services, and general purpose prepaid cards. With this new context, financial inclusion programs should expand their focus and provide affordable and inclusive services and products in these extended fields, too.

2.2. Financial Security

With the inclusion of the underbanked, US financial inclusion policy and practice started to extend beyond the narrowly defined unbanked population. With this backdrop and as a parallel initiative, the Aspen Institute's Financial Security Program (see Annex for interview notes) has been promoting financial security since its founding in 2004. The program description reads:

> Through its array of strategic convenings, dialogues, briefings, and publications, the program builds consensus among industry, policymakers, and community leaders for breakthrough solutions that help hard working families become more resilient and successful in achieving long term financial goals such as education, homeownership, and retirement security. Aspen FSP moves multi-stakeholder dialogue beyond diagnosis

> to create solutions-focused discussions. Our goal is to foster effective public policies that help shape the rapidly evolving financial system to improve the financial security and financial well-being of all Americans.[8]

One of the flagship programs of Aspen FSP is the “Financial Security Summit”, which is convened with the participation of key personnel in government, foundations, think tanks and nonprofits related to financial security. The main topics are policy issues such as economic inequality, widening disparity and financial inclusion, and practical issues such as promoting children’s savings and securing reserves for old age. What is notable is that this privately-led “summit” has become an important policy discussion forum on financial inclusion and security. Today, it can be summarized that the financial security policy agenda in the US includes the following features:

- The financial crisis of 2008 has seriously damaged the financial security of US citizens, and brought new agendas for financial security in the fields of retirement pension, housing loans and health care.
- The main target population is the unbanked and underbanked. The financial instruments (services and products) that are used to address the issue are not limited to bank accounts but include various kinds of financial services and products such as financial transactions, savings, loans, credit cards, pensions and insurances;
- Recently, a small dollar lending industry has rapidly been emerging, and new products and services have been introduced, some of which are deemed predatory. The attention of the regulators is on how to secure fairness and affordability of the new industry’s instruments.
- The current policy priorities for financial inclusion/security are the regulation of the financial sector, the provision of affordable lending, and the improvement of financial literacy and capability of the target population. At the same time, there is a strong awareness that the government should monitor changing market trends and set guidelines for ensuring the affordability of products and services.

8 http://www.aspeninstitute.org/policy-work/financial-security/who-we-are

2.3. Financial Health

Literature review from the UK shows that the UK brought the concept of financial inclusion to the fore and made it a policy agenda in the 2000s. Key elements include: a) integrated policy framework generated by the financial inclusion taskforce in the government; b) the establishment of a financial inclusion fund to support various programs; c) support to affordable lending programs and financial advisor programs, and d) broader efforts to establish an eco-system of social investment, which later became a major enabler for microfinance institutions. It should be highlighted that the expansion of affordable lending programs in the UK became possible through government funding support as well as changes in the regulatory framework. In 2011, the financial inclusion taskforce was disbanded, and the new coalition government shifted its policy focus from direct support programs to regulatory and tax incentives.

In 2015, a newly formed Financial Inclusion Commission published a report titled, "Financial Inclusion: Improving the Financial Health of the Nation."[9] The Commission was set up to fulfill the objectives of 1) championing financial inclusion as a public policy priority; and 2) working with policy makers and a wide range of stakeholders to come up with deliverable policy proposals.[10]

The report mentions the following:

> The Financial Inclusion Commission wants to see a financially inclusive United Kingdom in which every adult and child can enjoy decent financial health. We want financial services that are accessible, easy to use and meet people's needs over their lifetime. We want people to have the skills and motivation to use financial services, and to benefit meaningfully from them.
>
> This means a United Kingdom in which:
>
> - every adult is connected to the banking system, through having access to – and the ability to make full use of – a transactional account of his or her own;
> - every adult has access when necessary and appropriate to affordable credit from responsible lenders;
> - every adult is encouraged and enabled to save, even in small or irregular amounts, to show the importance of a common savings culture, to build up resilience against financial shocks and as an additional resource for retirement;
> - every adult has access to the right insurance cover for his or her needs, at a fair price;

9 http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf
10 http://www.financialinclusioncommission.org.uk/about

- every adult has access to objective and understandable advice on credit, debt, savings and pensions, delivered via the channel most suited to that individual;
- every adult and child receives the financial education he or she needs, starting in primary school and carrying on throughout life and into retirement; and government, regulators, the financial services industry and civil society all work together to deliver this vision, before the General Election in 2020, under the leadership of a Minister for Financial Health.

Note that the focus in this report is "every adult (and child)", and it talks not only about the banking system and affordable credit but also insurance and access to advice and financial education; thus the term "financial health". It is no longer simply a matter of including the excluded. Societies have financially vulnerable population, and financial health measures should be geared toward "every adult (and child)" who, by chance, could be trapped in a financially vulnerable situation at any time. As for the state of financial health in the UK, the report points out:

- Nearly two million adults in the UK do not have a bank account;
- Financially excluded people pay a 'poverty premium' of £1,300 each year;
- An estimated two million people took out a high-cost loan in 2012 as they were unable to access any other form of credit;
- Up to 8.8 million people are over-indebted;
- 13 million people do not have enough savings to support them for a month if they experienced a 25% cut in income;
- 50% of households in the bottom half of the income distribution do not have home contents insurance;
- 15 million people (31% of the population) report one or more signs of financial distress.

Although the report does not use the term "underbanked", it has a reference to the "underserved", as follows:

> The Commission therefore recommends that an independent think tank be established to facilitate innovation in the interests of financially excluded consumers. This may be similar to the Center for Financial Services Innovation (CFSI) in the United States. The CFSI has a mission to improve financial health, especially of the underserved, by shaping a robust and innovative financial services marketplace with increased access to higher quality products and practices. It has successfully built a network across the industry; it was the first in the United States to size the underserved market; and it popularised the concept of financial health.

The Center for Financial Services Innovation (CFSI) in the US (see Annex for interview notes), indeed, uses and promotes the term financial health. In the twopage brief published in 2015, "CFSI Financial Health: Measuring What Matters",[11] financial health is described as follows:

> Financial health isn't about wealth – it's about how financial products and behaviors make life work: your ability to spend, save, borrow and plan for life. Instead of narrow measurement tools like credit scores, measuring financial health is a holistic way of measuring financial condition – a tool for the 21st century.

It also explains 8 "conditions" for a financially healthy situation, which are:

1. Spend less than or equal to your income
2. Pay your bills on time
3. Save regularly
4. Have a sustainable debt load
5. Are financially resilient
6. Plan ahead for short and long-term expenses
7. Are financially aware and engaged
8. Have positive financial attitudes and perceptions

The brief's headline reads: "Americans are walking a financial tightrope: 138 million lack financial health." It states that according to CFSI's research, 57% of the US population is struggling with financial health. "These people are not just low-income households, they are also those making near the median income and some higher-income households. In fact, more than one-third of households making more than $100,000 per year lack financial health".

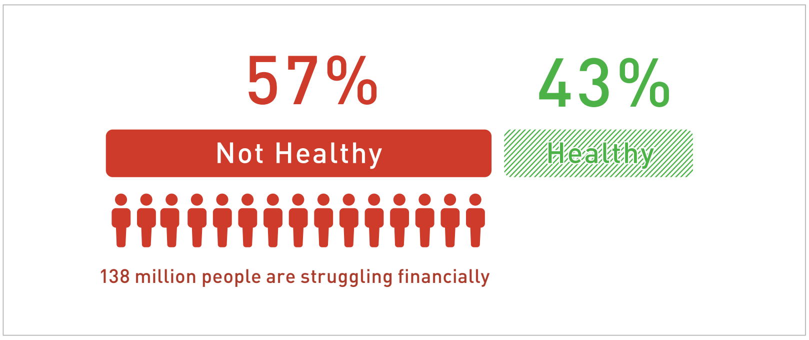

Figure 3 : Financial Health in the US (CFSI Financial Health : Measuring What Matters)

It is a little surprising to read "more than one-third of households making more than $100,000 per year lack financial health," but if we apply the 8 conditions above rigorously, it probably captures the state of affair accurately.

11 http://www.cfsinnovation.com/Document-Library/Consumer-Financial-Health-Brief-Measuring-What-Mat

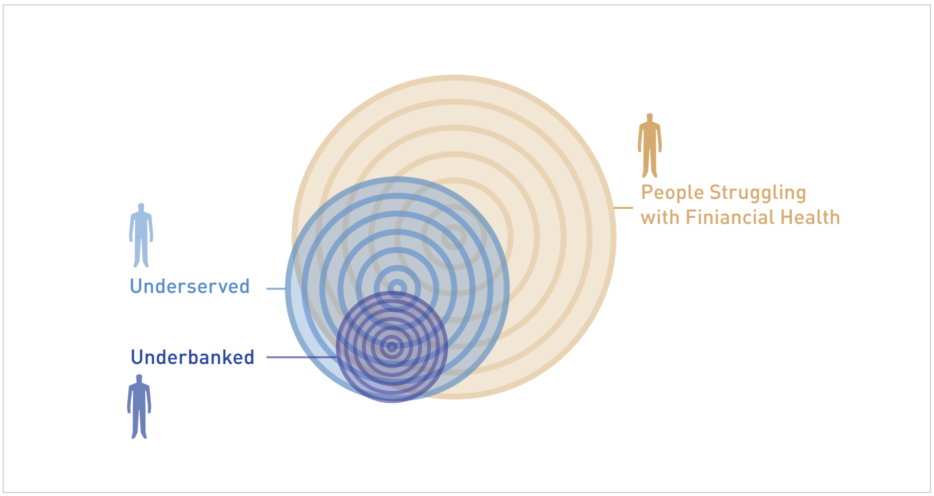

**Figure 4: Underbanked,
Underserved and People Struggling with Financial Health**

CFSI, in a different brief, also depicts how the underbanked, underserved and those who struggle with financial health intersect, as shown above.[12] As described, "people struggling with financial health" is a much broader concept than underbanked or underserved. Just as the UK Financial Inclusion Commission was referring to "every adult (and child)", the conceptual coverage of financial health is much broader than particular segments of the population who are financially underserved.

12 2013 Financially Underserved Market Size, http://www.cfsinnovation.com/CMSPages/GetFile.aspx?guid=c032e4aa-039b-4723-8f2d-4fbf7fc0eb19Mat

3. Major Findings – Innovations in Financial Education and Service

3.1. Focus on Financial Capability

Innovations in behavioral economics and related disciplines today point to the fact that there are limitations to the traditional financial education/literacy approach, with a dominant style of classroom teaching and a focus on knowledge learning. Instead, a new approach seen in CFSI, for example, focuses on financial capability and behavioral changes in the target population with new instruments like financial coaching and educational gaming, and/or with new technologies such as text/email alerts and personal financial management interfaces. In the US, there is an increasing number of programs for those in need, especially at-risk youth. These programs are beginning to address growing needs by incorporating new approaches. It should also be emphasized that evidence-based monitoring and long-term tracking systems are being developed and embedded in the present financial education/literacy programs in order to improve their effectiveness and make them more financial capability oriented, as seen in the case of the LISC (Local Initiatives Support Corporation) Financial Opportunity Center (FOC). (see Annex for interview notes)

3.2. Integrated Service Delivery Approach

The LISC FOC's programs, which have demonstrated a number of successes, indicate that the "Integrated Service Delivery" (ISD) approach is more effective than separate approaches. Financial coaching alone, for example, cannot be a solution without providing support for job placement and public benefit access. In this sense, financial inclusion policy and practice should be more closely and systematically related to social inclusion policy and practice. More and more people are realizing that financial inclusion policy and practice will find its core competence in this broadened approach and can maximize its impact by integrating social inclusion measures.

3.3. Innovation in Technology and its Use

One of the most notable new trends in the field of financial inclusion is that of innovation in both technology and its use. The financial education field enjoys vast opportunities to reach and engage younger generations in its programs through attractive online gaming and entertainment contents. (see Annex for interview notes of D2D Fund and CFSI) In addition, the financial coaching field also has a huge potential to revolutionize its approach by fully utilizing mobile technologies. Various kinds of financial management tools and coaching, monitoring or controlling apps have been developed through hackathons and other support programs. It should be noted that mobile tools are most effective to those at risk, because research has revealed that majority of them are using mobile services and products for their personal financial management rather than traditional interfaces with financial institutions.

New technologies can be more widely used in the field of financial inclusion. Developing apps for personal financial management support and financial education are good examples. Utilizing online game or comic characters will attract youths who may be not interested in financial education as such. These days, with the call for FinTech, a new set of financial services using online tools is gaining attention in many countries, including Japan. FinTech movement itself is not necessarily geared toward addressing financial inclusion issues, but it will nevertheless have broader implications that will affect the landscape of financial inclusion.

It is also noteworthy that leveraging the power of the private financial sector is crucial for scaling up financial inclusion programs in the US. An example was the success of Prize Linked Savings programs by the D2D Fund. The Save to Win program developed by the D2D Fund and credit unions in Michigan created more than 50,000 unique accounts with more than $94 million. This program is a good example of engaging private financial institutions in a financial inclusion program. In addition, the success of Save to Win program led to the enactment of the American Savings Promotion Act, which legalized no-risk cash-prize savings raffles and thus enabled banks and credit unions to offer cash prizes through innovative, no-loss lotteries and customer raffles. This case demonstrates the potential impact of a small nonprofit organization such as D2D fund.

4. Conclusions and Recommendations

At the outset, we posed two key questions in order to create some building blocks to better understand the state of financial inclusion/exclusion in Japan as described in WP1. We are now ready to conclude this Working Paper with a set of recommendations.

In answer to our first quesiton: “Are there useful concepts that can help Japanese society better understand the multitude of emerging issues around financial inclusion/exclusion?” we recommend:

- **Test different concepts and terms:**
  The concepts of “underbanked,” “financial security” and “financial health” can be introduced to the Japanese lexicon as well as “financial inclusion/exclusion” to test which concepts/terms best identify and capture the increasing needs that are emerging in Japanse society. From our preliminary review of the situations in the US and the UK, it is probably advisable to start going beyond the narrow definition of financial inclusion/exclusion to fully capture current needs, especially concerning the “service vacuum.” The US policy has already started to focus on financial security, but a full-fledged policy framework of financial health has not yet come to fruition in the US or the UK. It may be the case that the universality (“every adult and child”) of financial health might be more appealing in a Japanese context than trying to identify “underserved,” financially vulnerable segments as we tried to do in WP1.

- **Conduct baseline research and filling primary research gap:**
  Baseline research on the underserved was instrumental in the US in forming approaches to unbanked and underbanked populations. Since the lack of basic information on financial inclusion and exclusion is a major inhibiting factor in forming a comprehensive approach, information and data gathering with a good strategy will be useful. Efforts can be made in Japan, most likely by public-private partnerships, to advance on this agenda, with the key terms as discussed above. The initiative can also incorporate detailed behavioral analyses such as financial health surveys in a longitudinal, long-term, comprehensive research design.

  In a similar vein, financially underserved market research and financial health surveys by CFSI in the US are another good example of the complementary role that the private sector plays to that of the government. Thanks to CFSI’s pioneering research on the underserved market, policy makers as well as funders and practitioners in the field of financial inclusion have come to understand more about the market trends. Since primary research on the target population is critically needed for developing any kind of policy intervention, CFSI’s work is a valuable contribution to policy development.

- **Create privately-initiated policy discussion forums:**
  One of the important roles of the US private sector is to conduct pioneering research in any particular field, prepare policy recommendations based on that research, and share them with both government and the public, thereby transforming the issue into a policy agenda. The Financial Security Summit convened by the Aspen Institute FSP is a good example of how newly identified issues can be brought to a policy forum. At the summit, policy makers as well as senior management officials from the financial sector, leaders from the social innovation sector and other stakeholders from foundations and nonprofits engage in intensive discussions about financial security issues. The summit provides all these participants with opportunities for information sharing, peer learning and consensus building. In addition, Aspen FSP regularly issues policy recommendation papers on financial security. These papers serve as an important means of raising awareness of this issue among the public and in forming common understanding for further policy discussion among policy makers.

For our second question: "Are there useful tools and instruments that can be replicated in Japan to serve as a springboard for solutions to financial inclusion issues?" we recommend:

- **Incorporate "Integrated Service Delivery" (ISD) approaches:**
  In Japan, as reviewed in WP1, there are several affordable lending programs that have the potential to be scaled up if properly supported, including programs initiated by consumer co-operatives and others. In particular, strategizing how to combine lending with financial coaching and consultation will yield useful lessons that can be replicated.

  The US example shows that the ISD approach is more effective than separate approaches. Similar comments have been heard from Japanese practitioners who emphasized the need to combine financial consultation with an affordable loan program. Yet, the newly introduced Household Financial Consultation system under the Law for Supporting the Independence of People in Need is still only partially executed. It seems that this new system has not yet been fully utilized to cover the wide range of potential needs of financial coaching, or to respond to these needs with professional skills and knowledge. The government has launched an official training program for all Household Financial Consultants, but more efforts are needed to strengthen both the number and the quality of consultation services.

  The LISC FOC in the US demonstrates an innovative approach that combines financial coaching and education with employment support services and income support. This integrative approach has had a great impact on the financially excluded population. FOC's experiences inform us that the program impact would be limited if different service programs were provided separately. It is also noted that a sophisticated system for tracking and monitoring the clients' financial history is critical for achieving successful financial inclusion programs, as showcased in the FOC's Family Financial Tracking-Efforts to Outcomes (FFT-ETO) system (see interview notes).

- **Utilize innovation using ICT and funding instruments:**
  The experiences of D2D Fund's programs in the US, such as the development of mobile apps, gamification and financial entertainment, show that there is room for technological innovation in the field of financial inclusion, especially in financial education and financial coaching. Closely related to this kind of technological innovation is the innovation of approaches and concepts, which CFSI has strongly promoted through various kinds of support funds such as the Catalyst Fund and the Financial Capability Innovation Fund. CFSI also contributed to the development of mobile apps through supports to the FinCapDev Competition and other Hackathons in collaboration with D2D Fund. Providing incentives and seed money has been proven crucial for generating innovations.

As mentioned in WP1, the concept of financial inclusion has not yet gained broad understanding among policy makers, the financial sector, mass media and the public in Japan. Because of the lack of a proper term, there is no coherent narrative to discuss financial inclusion issues, and the approach becomes fragmented and sporadic. WP1 discussed "service vacuum" issues, which are understood by stakeholders who directly deal with those in economic need, but a broad understanding of the vacuum itself is still limited – inhibiting the formation of comprehensive measures to address the issue. Now that related terms with broader focus have been introduced in the US and the UK, most notably financial security and financial health, we can start experimenting with these different terms to see which will work best for fostering much-needed discussion of financial inclusion in the Japanese context.

Annex List and Contents of Interviews

(1) Aspen Institute Financial Security Program
(2) LISC (Local Initiatives support Corporation) Financial Opportunity Center
(3) Center for Financial Services Innovation (CFSI)
(4) D2D (Doorways to Dreams) Fund
(5) Financial Inclusion Centre UK
(6) Fair Finance UK

All interviews were conducted between July and September 2015.
All interview notes are taken by Japan NPO Center. JNPOC take all responsibilities for any errors.

(1) Aspen Institute Financial Security Program

Ida Rademacher, Executive Director

Purpose of the interview:

To ascertain the current state of financial inclusion in the United States, particularly key policy issues and the efforts taken to address them, by studying efforts related to financial inclusion by a non-profit think tank representative of the United States.

Overview:

Started as a program of The Aspen Institute in December 2004. It addresses the issue of financial insecurity in American households as a partnership program for the financial services industry and public policy experts.

Main operations:

1. **Financial security summit**
    - Concentrated discussion is conducted every year with the participation of key personnel in government, foundations, think tanks and nonprofits related to financial security. The main topics are policy issues such as economic inequality, widening disparity and financial inclusion, and practical issues such as promoting children's savings and securing reserves for old age.

2. **Studies and policy proposals**
    - 2007 Savings for Life: A Pathway to Financial Security for All Americans (Report)
    - 2008 The Chance for Change: A Memorandum to the Next President on a Saving Agenda for America (policy proposal for the 2008 Presidential election)
    - 2009 Wall Street/Main Street: The Challenge of Building Financial Security in the Obama Era (urgent policy proposal aimed at financial reform after the 2008 financial crisis)
    - In addition, the organization has conducted studies and made proposals in a variety of areas such as retirement pensions, housing loans, financial education and promotion of children's savings.

(2) LISC (Local Initiatives Support Corporation) Financial Opportunity Center

Kim Seung, Program Director

Purpose of the interview:

To seek out the possibility of the establishment of a Japanese model for the future by investigating the current state of FOC, a unique business model combining employment support and financial coaching by LISC, which is an institution supporting impoverished communities in the United States.

Overview:

LISC (Local Initiatives Support Corporation) is a non-profit organization established in 1979 with the support of the Ford Foundation. It is based in New York, and currently has around 350 staff members. The primary objective of LISC is to create sustainable communities in the United States. FOC (Financial Opportunity Center) is a nationwide network established by LISC in 2004, providing financial consulting and employment support according to the needs of low income earners. FOC expanded to 45 centers in 10 cities with the support of the Social Innovation Fund established by the Obama administration in 2010, and has since continued to grow, establishing 75 centers in 33 cities as of 2015.

Main Operations:

- Employment support
  Various types of training, issuance of certificates, job placement, coaching for career formation, etc.
- Financial coaching and education
  Credit building, savings plans and free tax preparation support services, and introduction of innovative products with major financial service providers
- Support for access to government income support programs
  Support for access to government income support systems such as food stamps, public health insurance and utilities assistance. Furthermore, support is also provided for access to work such as gasoline stamps, bus passes, vouchers for work clothes and assistance for taking certification examinations.
- Integral merging of the above three programs
  FOC aims to maximize the improvement of lifestyles of low income earners by integrally merging the above three programs.
- Outcome tracking, performance management, sustained program improvement
- Developed Family Financial Tracking-Efforts to Outcomes (FFT-ETO) systems, quantitatively managing clients' basic information, program outcomes and "stories". In addition to providing effective support through these, steps are being taken to improve the program.

(3) Center for Financial Services Innovation (CFSI)

Eva Wolkowitz, Associate

Purpose of the interview:

To consider the potential for future policy in Japan by investigating the activities of the only private non-profit think tank specializing in financial inclusion in the United States. Another goal is to ascertain the status of various innovations engaged in by CFSI.

Overview:

A private non-profit think tank established with the supportz of the Ford Foundation in 2004. Its mission is to “improve the financial health of Americans, especially the underserved, by shaping a robust and innovative financial services marketplace with increased access to higher quality products and practices”.

Main Operations:

1. Research and study
    - Conducted the first survey on unbanked and underbanked households in the United States in 2008.
    - Conducted a survey on the financially underserved market. By doing so, ascertained trends in the underserved market.
    - Conducted a survey on consumer financial health. By doing so, ascertained the behavioral characteristics of each segment of financial consumers.

2. COMPASS Principles
    - Established voluntary guidelines for providing inclusive financial services, and called for member institutions to adopt these.

3. Promotion of innovation
    - Supported innovation with the establishment of the CFSI Catalyst Fund in 2007. Established Core Innovation Capital based on this, and provided support to venture companies developing and providing innovative financial services.
    - Cooperated with the D2D Fund in 2012 to begin a hackathon for the development of mobile apps aimed at financial inclusion.
    - Established the Financial Capability Innovation Fund with support from the CITI Foundation in 2010. Supported a model business aimed at improvement of financial capability.

(4) D2D (Doorways to Dreams) Fund

Timothy Flacke, Executive Director

Purpose of the interview:

To investigate the case of a non-profit organization aiming to provide unique financial inclusion utilizing technology and games, etc.

Overview:

A non-profit organization founded by Harvard Business School professor Peter Tufano in 2000. Its mission is to "strengthen the financial opportunity and security of low and moderate income consumers by innovating, incubating and stimulating new financial products and policies." It envisions a world where the financial system promotes lasting social and economic prosperity for every family.

Main Operations:

1. **Development of mobile apps**
    - Developed apps through events such as the FinCapDev Competition and the MyMoneyAppUp Challenge.
    - In 2014, held SmallBizDev Hackathons to promote the development of mobile apps for small business operators.

2. **Save to Win program**
    - Began in Michigan in 2009. Promotes the opening of bank accounts for low income earners by combining the opening of accounts with raffle prizes with the cooperation of local credit unions. Currently expanding to all states in the US, utilizing raffles and state lotteries.

3. **Financial Entertainment program**
    - Developed a video game aimed at improving financial capability. It has been accessed by 400,000 nationwide so far. The game can be downloaded from the website for free.

4. **Gamification program**
    - A project for increasing the effect of learning through the gamification of high school financial education. A pilot project called Summer Quest was implemented in Birmingham.

(5) Financial Inclusion Centre UK

Mick McAteer, Founder and Director

Purpose of the interview:

This is an organization conducting active advocacy and policy proposal activities on financial inclusion as a private non-profit think tank in the United Kingdom. The purpose of the hearing is to assess the current state of financial inclusion in the United Kingdom and investigate the state of activities of the think tank.

Overview:

Established in 2007 as a nonprofit company limited by guarantee under an initiative by the UK Consumers' Association. Its mission is twofold: (1) promotion of financial inclusion and the provision of services that meet the core financial needs of consumers, and (2) promotion of a financial market based on fair, inclusive, efficient, competitive and sound governance and accountability, and appropriate regulation. It mainly conducts projects in collaboration with consumer groups, labor unions and civic groups.

Main Operations:

1. **Policy advice and advocacy**
   - Published the Financial Inclusion Manifesto
   - Published Financial Services Priorities ----- 2015 and beyond
   - Actively submitted public comments on financial policies of the UK government and the European Commission

2. **Research and study**
   - Evaluation of projects on financial inclusion
   - Study of the state of financial inclusion, etc.

(6) Fair Finance UK

Faisel Rahman, CEO

Purpose of the interview:

A survey was conducted on Fair Finance UK as a model business because it is one of the few community development financial institutions in the UK that is a non-profit organization providing loans to individuals, and its innovative methods are commendable.

Overview:

A community-developed financial institution established in 2005. Its mission is to provide high quality financial products and services that are affordable and accessible to people who are financially excluded. Its vision is to revolutionize personal finance, starting with the people whom the mainstream providers have left behind. It received a Big Society Award from the UK government in 2013. It has five branches around London.

Main Operations:

1. **Personal loans**
    - Up to £2,000. Interest rate of 99% per annum and a 5% fee. Up to 52 weeks. Loans are provided within 24 hours of the receipt of applications.

2. **Loans for small and medium businesses**
    - £2,000 to £20,000. Interest rate of 28% per annum and a 5% fee. Up to 36 months.

3. **Free debt consultation**

WORKING PAPER #2

INNOVATIONS IN FINANCIAL INCLUSION:

PRELIMINARY LESSONS FROM THE US AND THE UK FOR JAPANESE SOCIETY

This Working Paper was made possible by a grant from MetLife Foundation.

Editorial Support: Junko Tashiro, MetLife Foundation
Proofreader: Kate Robinson
Designer: Shuko Ikemura, 3onkey Design

Authored and Issued by: Japan NPO Center
Shin-Otemachi Building #245,
2-2-1 Otemachi, Chiyoda-ku Tokyo 100-0004
TEL: +81-3-3510-0855, FAX: +81-3-3510-0856

We welcome your feedback. Please send it to: **feedback@jnpoc.ne.jp**
www.jnpoc.ne.jp/en/