

G20 Fukuoka Policy Priorities

on

Aging and Financial Inclusion

- 8 Key Steps to Design a Better Future

This document was jointly prepared by the GPI and the OECD for the Japanese G20 Presidency.

Message from Honorary Patron of the GPFi

“The world population is aging rapidly. By 2050, in many regions around the globe at least a quarter of the population will be over 60 years old. It is crucial to consider the needs of people at varying stages of life to achieve sustainable financial inclusion. Older generations have different needs for financial services than younger ones—and they face different challenges in access and usage. Technology holds great potential to help us manage our financial lives as we grow old. However, we also need to be mindful of the age gap in digital and financial literacy. This report serves as a solid starting point to develop additional research and initiatives that can expand financial inclusion for the aging population. I commend the GPFi for the effort and encourage all of us to continue this important work.”

H.M. Queen Máxima of the Netherlands

UN Secretary-General’s Special Advocate for Inclusive Finance for Development (UNSGSA)

Honorary Patron of the G20 GPFi

Acknowledgements

This document was jointly prepared by the GPFi and the OECD for the Japanese G20 Presidency. It builds on input from GPFi member countries, its Subgroups, Implementing Partners, Affiliated Partners and other key stakeholders, particularly the G20/OECD Task Force on Financial Consumer Protection, FinCoNet, the OECD International Network on Financial Education, the Better than Cash Alliance, and the Alliance for Financial Inclusion.

Introduction – why aging matters for financial inclusion

Aging is a global phenomenon. The number and proportion of older people as a share of the population is growing rapidly in many developed and developing countries; still others will experience such growth in years to come. The UN predicts that there will be over two billion people aged 60 and above worldwide in 2050, and one in five people in developing countries will be aged 60 or more (UN, 2017).

And while definitions and concepts of what constitutes “old” differ around the world, such significant demographic shifts create new challenges for policy makers seeking to achieve sustainable financial inclusion; it is important to address these now, rather than place unnecessary financial burdens on younger generations or add to inequality.

The G20, in particular through the Global Partnership for Financial Inclusion (GPFI), has placed strategic importance on the financial inclusion of older people under its 2017 Financial Inclusion Action Plan, and the Japanese Presidency in 2019 has prioritized work to address the challenges faced by aging populations in G20 and non-G20 countries across the spectrum of development.

Building on previous G20 work, including the G20 Principles for Innovative Financial Inclusion, the G20 High-Level Principles for Digital Financial Inclusion and related work on financial consumer protection and financial education, this document identifies eight policy priorities in the context of aging populations (the “G20 Fukuoka Policy Priorities”). Such a focus is essential for policy makers, regulators, financial service providers and other stakeholders to maximize financial well-being across generations. This becomes particularly important in countries with limited or no social security, where there is increased vulnerability, and where long-term financial solutions that may work for some are beyond the reach of many.

Financial inclusion, supported by financial consumer protection and financial education, can also contribute to greater financial system stability and reduce pressure on public pension schemes where they exist including by increases in formal saving, the avoidance of old-age poverty, improved lifetime financial planning and intergenerational equality.

Opportunities and Challenges

Aging creates opportunities and challenges for individuals, society and the economy in both developed and developing countries. First of all, while there is variation across countries, aging populations will create a range of opportunities. In all economies, older workers will generate demand for new or additional financial products and services as working lives lengthen and formality increases. Their economic activities form the “Longevity Economy”, which could have a large impact on economic prosperity. And the effect will not be limited to high-income countries. As populations age in less-developed economies, older workers will also continue to spend money and, with the relevant policy settings and infrastructure, younger adults will be able to use formal savings products to prepare for their anticipated longevity. Assets held and managed by, or on behalf of, older consumers will become increasingly significant as a proportion of overall assets held, and if properly directed have the potential to support productive activities, including small enterprises.

Further, longer life also allows for new types of life trajectory. Depending on individual circumstances and the level of economic prosperity, these may include various periods of training and employment, entrepreneurial activities, more time with families and communities, and opportunities to undertake leisure activities or philanthropy in the upcoming greater longevity society or “100-year life”.

On the other hand, **aging poses challenges for financial inclusion.** The more longevity people enjoy, the more financial needs they have to plan and manage particularly, but not only, in later life. As people age, the risk of financial hardship and poverty due to insufficient savings and income plus additional expenditure increases. In less-developed economies with limited financial infrastructure, adults may be less likely to be aware of financial products to help them throughout various life stages and plan for a long-life, or to access them.

Expenses related to medicine, health and dental care, long-term care, adapted housing or physical assistance are likely to take an increasing proportion of the household budget in countries with access to such services. Many will not be sufficiently prepared for – or even aware of – these changing priorities, particularly as they often arise unexpectedly. This may be compounded in countries where social security and guaranteed (defined-benefit) pension incomes have been replaced by increasing levels of personal responsibility for retirement savings (for example via defined contribution arrangements). In high-income economies 46%

of adults save money for old age, against only 16% in low- and middle-income economies (Findex, 2017). As a result, societies face a financing gap created by the misalignment of “life longevity” and “asset longevity” that may be mitigated, at least in part, by innovative financial products and services. The challenges are greater for many women, as they tend to live longer than men and are more likely to be poorer in old age.

While older age is not itself a cause of vulnerability, there are factors that make it more likely an older person will experience vulnerability in terms of effectively managing their financial lives. Cognitive and physical decline including, for example, impairment arising from Alzheimer’s disease and other forms of dementia are more likely in later life, with important implications for financial inclusion. Financial decision-making becomes harder as cognitive skills decline, making it increasingly difficult for older people to choose and manage any financial products they may hold or stick to financial plans. As the shift towards digital financial services continues and financial inclusion is increasingly driven by technological innovation, low levels of financial and digital literacy can compound these issues, and further threaten financial security in old age.

Physical decline also makes financial institutions less accessible; travel becomes more difficult and reading, hearing or using digital tools can be problematic. These are important reminders that all of us, even if we are financially included today, may face financial exclusion in older age. Furthermore, these effects, alongside factors such as social isolation and reliance on family and friends, contribute to the serious risk of financial abuse and fraud.

While health issues are more common in older adults, they vary in terms of onset and intensity. In addition, older adults are diverse in terms of factors such as income, savings, housing, education, employment or family and by characteristics such as gender or geographical location. Financial inclusion efforts should therefore be customized to individual needs and circumstances.

Aging also has an implication on sustainability and transfer of micro, small and medium-sized enterprises (MSMEs). As aging increases the need for ownership transfer in MSMEs, unmet financial needs can lead to failure of the transfer process, which may in turn impact on the financial security of the entrepreneur in retirement, lead to loss of jobs and supply chain disruptions.

G20 Fukuoka Policy Priorities on Aging and Financial Inclusion

Supporting aging populations with coherent financial inclusion policies is an important component of inclusive, sustainable development. The GPFII has identified the following eight priorities (G20 Fukuoka Policy Priorities). These aim to help policy makers, financial service providers, consumers and other actors in the real economy to identify and address the challenges associated with aging populations and the global increase in longevity discussed above. They reflect policies and practices to improve the outcomes of both current generations of older people and future generations.

G20 Fukuoka Policy Priorities on Aging and Financial Inclusion

- *Use data and evidence*
 - ✓ *Use various sources of data and evidence to show which policies are working and identify what else needs to be done*
- *Strengthen digital and financial literacy*
 - ✓ *Aim to provide everyone with practical skills and knowledge to manage in a changing financial landscape*
- *Support lifetime financial planning*
 - ✓ *Develop programs and products to encourage long-term plans*
- *Customise - address the diverse needs of older people*
 - ✓ *Create products and services that are tailored to the range of needs of older people*
- *Innovate - harness inclusive technologies*
 - ✓ *Make the most of technologies in developing financial products, protecting consumers and delivering financial education*
- *Protect - tackle financial abuse and fraud of older people*
 - ✓ *Identify problems quickly and use multi-pronged approaches to prevent older people from becoming victims of financial abuse or fraud*
- *Encourage stakeholder engagement - a multi-sectoral approach*
 - ✓ *Work with different sectors to ensure a consistent and comprehensive approach towards financial inclusion*
- *Target key audiences - address vulnerabilities*
 - ✓ *Consider the needs of groups who may be vulnerable or underserved*

Use data and evidence

Financial inclusion policies are most effective when they are evidence based.

Developing policy responses to promote financial inclusion of older people requires an understanding of their characteristics, behaviors and challenges. Relevant demand- and supply-side data and evidence, drawn from a range of quantitative and qualitative sources, can inform such an understanding. Such evidence may focus on aging populations or be disaggregated to explore possible variations by age. Data analysis by age would help policy makers to know whether financial inclusion policies are working across all age groups, and identify possible pockets of financial exclusion by gender or other characteristics that may be associated with age, such as health or income.

Existing survey instruments to collect comparable data on financial inclusion, financial literacy and financial well-being alongside relevant information on age, gender and other characteristics are available and have been widely used (Global FINDEX, 2017; OECD, 2017). However, a recent stocktaking exercise of members of the Alliance for Financial Inclusion suggests that many do not currently analyze financial inclusion data by age because the data are not easily accessible. Policy makers may be able to identify accessible sources of data or consider undertaking new data collection to learn more about older populations.

Data can also be used when designing financial inclusion policies for older adults and to monitor their effectiveness. Information about the ways in which older people typically access financial products and where they go to find information or seek help can be useful in the design phase. The implementation of financial inclusion policies can benefit from pilot-testing and evaluation to understand whether they are having the required impact, and whether this is consistent across subgroups of the older population, such as widows, rural elderly, MSMEs and older entrepreneurs.

Strengthen digital and financial literacy

There is a need to support the digital and financial literacy skills of older people and those responsible for their financial decisions, to help them keep up with the pace of change and avoid risk factors that could influence their financial well-being. Older people are more likely to need tailored provision of up-to-date knowledge and information presented in an appealing, jargon-free way – taking into account their diverse preferences and needs, physical and cognitive capacities and the

rapidly changing financial landscape. They also need to know when and where to seek professional financial advice, be confident to ask questions, make complaints or seek redress.

At the same time, there is a need to support the financial literacy skills of young people, women and working age adults to help them make financial plans for older age.

Policy makers should strive to strengthen and encourage evidence-based design and delivery. Financial education can be provided through a variety of channels, including employer-sponsored training, self-guided online learning or community classes. Social media can also be used to create online communities that support one another in a variety of ways such as providing tips and encouragement to stick to a budget or work towards personal saving and investment goals. Some have a nation-wide financial education network of local committees, consisting of both public and private sectors promoting financial preparedness in later life, and others have formulated financial literacy strategies designed specifically for older people or put measures in place to help educate older consumers about digital financial services.

With the increased digitalization of the financial landscape, including the digital delivery of financial education, it is also critical to support and strengthen the digital skills of older people. Families and communities can facilitate the development of such skills through example and guidance. Further, policy makers and other stakeholders can develop initiatives that address both financial literacy and digital skills simultaneously by educating older people about the safe use of digital financial services.

Support lifetime financial planning

Many adults reach old age without sufficient savings, insurance, public or private pensions to live on or to fund long-term care. For example, while 68% of the world's older population receives a pension, only 26% in Central and Southern Asia and 23% in sub-Saharan Africa do so. Pension coverage is lower among older women than older men in all regions (UN, 2018).

As a result, many older adults may find it difficult to manage everyday living costs. Some mitigate this uncertainty by continuing to work in old age, or attempt to borrow money to cover any shortfall. Others are forced to rely on family members

or social assistance where available. An inability to cover daily expenses can create severe financial stress, mental health issues and increased risk of social isolation. Income shocks, such as those resulting from illness, family bereavement or other life events may also create severe financial hardship.

A combination of financial guidance, advice and product design, with appropriate consumer protection, can support lifetime financial planning by illustrating financial needs in old age, explaining the relevance of starting young and providing access to the tools and services that make it possible. Such measures may be particularly relevant for women given their lower pension coverage and for younger people to ensure they are included from an early age.

Financial products can be designed to enhance the financial security and savings, particularly of the most vulnerable, including low-income households and people in the informal economy. Incentive mechanisms can be used to encourage savings behavior such as matched savings, concessional tax rates, opt-out schemes or automatic enrolment. Furthermore, a range of accessible insurance products such as critical illness or long-term care products can provide greater financial security.

Lifetime financial planning does not stop once a person reaches old age. People who have accumulated assets may benefit from guidance on how to make the best use of them. Such guidance might include calculating how much they can afford to spend and setting expenditure priorities, as well as finding appropriate financial products to manage assets or smooth income in this decumulation phase. This may include consideration of the benefits and risks of products designed for homeowners to access housing equity.

Customize – address the diverse needs of older people

It is important that financial inclusion policies and approaches address the diverse financial needs of older consumers in a customized way, respecting individual wishes and taking into account gerontological viewpoints as well as characteristics that may increase the risk of financial exclusion such as gender, cognitive and physical capacity, health, housing status or asset accumulation. It is also important to recognize that future generations of older people may not have the same requirements as those of today.

Financial institutions have a role to play in supporting older consumers who need customized support. New and existing financial products and services can be

tailored to facilitate use, with approaches such as large print, seated queuing systems and bookable appointments. Cashier desks and ATMs can be designed to be accessible to people with physical impairments such as arthritis or those using mobility aids. Staff can be trained to take into account the needs of individuals, without recourse to generic age-based approaches. Financial products can be designed in ways that benefit consumers and providers by using insights from consumer data to reduce the fees and costs and optimize the service. Technologies such as audio and video communication can also be used to provide customized responses for those with low levels of literacy or sensory limitations.

For older adults, lack of access to a bank branch can present additional challenges. For example, many communities do not have access to bank branches, either because the infrastructure has never been created or because traditional providers are moving towards branchless models. Some financial institutions have implemented measures to address the lack of physical access by offering mobile bank branches or sharing facilities with other providers, such as post offices, or by offering home visits. In some jurisdictions there are requirements or voluntary agreements about the factors to take into account before considering closing a bank branch, including the availability of alternatives and balancing the impact on vulnerable customers with the commercial needs of the business.

Many policy makers and regulators have started to consider financial product lifecycles in addition to point-of-sale requirements. Some jurisdictions have introduced explicit measures to regulate the governance of financial products. This includes requirements that financial products are designed and distributed in accordance with the needs of the identified target population. The aim is to promote a “customer-centric” approach, based on sound evidence. Such approaches could, for example, ensure that credit and insurance products take full account of the profile and needs of older consumers and older entrepreneurs, rather than creating blanket exclusions due to age.

Innovate - harness inclusive technologies

Technology can play an important role in realizing the opportunities and addressing the challenges for financial inclusion associated with aging. Access to digital financial services depends in part on access to mobile phones and the internet. While such access is lowest among older adults in all economies, fewer than half of the eldest adults in low and middle income economies have a mobile phone, and less than 10% have internet access.

At the same time, technology can create barriers for some older consumers who may prefer traditional forms of transacting, such as cash payments, face-to-face service, and paper statements (Age UK, 2016), or those who may lack the familiarity, confidence or digital literacy to engage with digital financial services. It is vital that technology takes account of these barriers in order to support financial inclusion for older people.

Innovation in social security provision and digital financial services can support the financial inclusion of older people when designed with customer needs in mind and appropriate consumer protection. For example, in some jurisdictions advancements in biometrics and identification verification technologies have been employed in government and financial service provision, including in remote areas. Such technologies can also make it easier for customers with physical impairments to remain autonomous and financially included. Voice commands and dictation can also be used in place of keyboard or touchscreen controls to help with online access to financial accounts.

Innovative digital financial services using algorithms could identify actions or patterns of behavior that indicate a client may have made a mistake or misunderstood something. This could be particularly useful for older adults that are less comfortable with using digital financial services. Such technology can also be used to identify potentially fraudulent transactions and prevent them from being processed, for example through the use of artificial intelligence to identify and block phone numbers used for voice phishing or identify potential harmful emails.

Many older people have a preference for paper-based communications, although easy-to-use digital tools can provide urgent information and simplify decision making processes. Such innovative approaches can draw on behavioral economics or pedagogical science to help older consumers to make financial product choices or work towards financial goals (OECD 2018). Solutions include sending registered participants simple text messages with important warnings on scams, or letting users set automatic calendar reminders to ensure they pay their bills on time.

Protect - tackle financial abuse and fraud of older people

Financial abuse of older people as defined by the World Health Organization (WHO) includes illegally using an older person's money, property or assets, and is one form of abuse of the elderly. It is common within a relationship where there is an

existing expectation of trust, including family members, friends or neighbors, but also occurs via digital channels such as email accounts, social media or websites.

Financial abuse can take the form of scams or frauds, resulting in significant financial losses to individuals. A study into older investor vulnerability by IOSCO found that there was an almost unanimous view among participating regulators that **older investors were at greater risk than other investors of losing money to fraud or being taken advantage of** (IOSCO, 2018).

While there are clear indications that elder financial abuse, frauds and scams are widespread, there are also challenges involved in collecting data or doing research on financial abuse of older people, including under-reporting, which limits current understanding of the issue. However, some jurisdictions have established dedicated reporting systems to track issues.

Some policy makers have focused on measures to increase awareness and self-protection among older consumers through financial literacy and targeted communication initiatives. Consumers also need to make informed decisions about delegating financial decisions. The balance with financial consumer protection measures is important. For example, some jurisdictions have explicit legislative or regulatory requirements to protect older people from financial scams and ensure appropriate evidencing of informed consent. At the same time, appropriate supervision of advertising targeted at older people, also has a role to play.

Trustworthy financial service providers can support older consumers at risk of financial abuse, fraud or scams (AARP Public Policy Institute, 2016), and some have put a number of protective measures in place. These include disseminating tailored fraud prevention messages, establishing dedicated call centers, developing guidance and training branch staff to recognize tell-tale signs of physical or cognitive impairment or identify and question suspicious or unusual payments which could be indicators of abuse.

Encourage stakeholder engagement - a multi-sectoral approach

Given the multiple dimensions of the issue and the wide range of approaches and interventions that are needed, **it is important that organizations from financial and non-financial sectors work together to support the financial inclusion of older consumers and older entrepreneurs**. This includes public, private and civil society institutions from the financial sector as well as organizations representing

the interests of older people. In addition, potential stakeholders from other sectors, including retail, telecommunications, leisure, health and education can play a role. Organizations specializing in the needs of particular groups of people such as rural populations or those focusing on specific physical or mental disabilities also have unique insights that can help to support financial inclusion among older people.

In many cases, organizations in the broader community providing services (such as convenience stores, nursing homes, pharmacies, public transport providers or restaurants) may not view themselves as stakeholders within the context of supporting financial inclusion of older people. However, it is important to raise awareness within this broader community context concerning the ways in which older people interact with financial products and services in order to ensure safe financial transactions among their older customers.

Formal or informal steering groups or committees can be useful to provide a forum to ensure that all sectors understand and address issues relevant to local circumstances in a consistent manner. Such groups or committees may form the basis of a strategy and a roadmap which could be part of a broader strategy holistically addressing financial education, financial consumer protection and other issues related to aging, developed in accordance with international guidance where relevant.

Target key audiences – address vulnerabilities

Some financial inclusion issues are particularly pressing for specific target audiences, members of which may be more likely to be disadvantaged or underserved. Such groups may include those living in poverty and people with chronic sickness or disability. People with low literacy and numeracy skills, those who have worked entirely in the informal sector or with irregular employment patterns, and those who have not worked in adulthood due to caring responsibilities or lack of opportunity are also more likely to be vulnerable. Supporting these groups is particularly important as combinations of disadvantage are likely to increase vulnerability to financial and social exclusion and isolation.

Women are a particularly important audience. On average, they have lower lifetime earnings, are less digitally and financially literate, use fewer formal financial services including bank accounts, and live longer than men (WEF, 2018; OECD, 2017, FINDEX 2017). Women often receive smaller pension payments than

men, partly because women get paid less during their working years and lose compensation when they leave the labor force for caring duties such as raising children. As a result of these factors, women often face increased challenges in covering planned and unexpected expenses in old age and are more likely than men to face poverty in old age.

Young people are also important when considering the implication of aging, both because the potential burden of supporting a large population of older people and because of their own anticipated longevity. Well-designed and timely financial education policies and appropriate financial products are essential to help them to make financial plans and develop positive habits and behaviors that will keep them in good financial health as they age.

Similarly, some self-employed older adults will start a business out of necessity due to insufficient savings for retirement. These older self-employed people are more likely to face various barriers to financial inclusion including difficulty accessing appropriate financial products such as business credit as well as support for business transfer. This can prevent the development of a sustainable business.

Entrepreneurship mentoring programs and appropriate financial product design may help to address some of these challenges as part of a broader policy package to support small businesses, which may include access to pension products for business owners and their employees. Appropriate products or services (such as business transfer planning advisory services, trust arrangements, mezzanine finance vehicles, matching platforms and financial tools for younger entrepreneurs taking on established businesses) may also be helpful for the transfer of management or ownership of a small business.

References

The document and its references are available on the following webpages.

G20 Finance Ministers and Central Bank Governors Meeting

<https://www.g20fukuoka2019.mof.go.jp/en/>

GPII

<https://www.gpfi.org>

Japan Financial Services Agency

<https://www.fsa.go.jp/inter/etc/20190607/20190607.html>



About GPII

The Global Partnership for Financial Inclusion (GPII) is an inclusive platform for all G20 countries, interested non-G20 countries and relevant stakeholders to carry forward work on financial inclusion, including implementation of the G20 Financial Inclusion Action Plan, endorsed at the G20 Summit in Seoul.