Promoting Age-Friendly Financial Services in Korea: Future Directions

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As older adults aged 50 or over are expected to become the mainstream consumer segment of financial firms amid low fertility and population aging, a new service framework is needed to replace today's financial services primarily targeting the working age population. Older adults and the working age population have different biological, economic, and behavioral traits. Physical and cognitive aging of financial consumers will call for renewed banking accessibility and preventive measures against financial abuse. Banking accessibility should be enhanced based on a new branch policy that supplements non-face-to-face services, whereas mobile monitoring and effective guardianship should take hold as a deterrent to financial abuse. Furthermore, aging is expected to push up demand for two areas: First, demand for drawdown products that shift household assets to retirement income streams; and second, demand for one-stop services to pass on property rights to descendants. As comprehensive trust services can meet the two lines of demand—asset management and transfer of property assets, this is expected to take hold as an important element to age-friendly banking in the future.

Introduction

In a decade, Korea is forecast to see the number of population aged 50 or over ("older adults" hereinafter) dwarf those aged between 15 and 49 ("younger adults" hereinafter). By 2030, the number of older adults in Korea will reach 25 million, which is 4 million more than 21 million younger adults. When most second-generation baby boomers will be older adults in

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⁎ All opinions expressed in this paper represent the author's personal views and thus should not be interpreted as Korea Capital Market Institute's official position.

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2040, the gap will rise further to 11 million with 28 million older adults and 17 million younger adults.[1)] Such a demographic shift is grand enough to transform the landscape of financial services. Older adults have thus far been just one of the consumer segments, but in the near future, they will be mainstream consumers of financial services. The useful starting point to cope with the change could be found in the traits of their financial transactions. Older adults show biological, economic, and behavioral traits differentiated from the working age population. What's important is that such traits will call for the current financial system, in particular retail finance, to equip with renewed services and oversight.

On top of population aging, there's another factor that accelerates changes in the financial landscape: Covid-19 and the resultant rise of non-contact or non-face-to-face finance. Amid the Covid-19 pandemic, there has been an abrupt increase in non-contact activities in every corner of the economy. Admittedly, the coercive, compressed manner of non-contact financial services could be positive in helping narrow the digital divide. However, non-contact services raise a formidable question of how the future financial system should evolve to cater to less digital-savvy older adults who will be mainstream consumers. Against the backdrop, this article tries to explore how financial services will cope with the demographic shift and the resultant changes under the new digital environment, and then discusses some issues surrounding that.

Three traits of older adults and implications

In comparison with the working age population, older adults show distinctive biological, economic, and behavioral traits, which have implications for financial services. First, this segment of consumers experience aging both physically and cognitively. Physical aging associated with reduced mobility implies the need for a change in how customers access to financial services. The conventional point of contact for inbound services makes customers visit a branch, but this is no longer deemed desirable for older adults who may need a new point of contact, e.g., outbound or non-face-to-face financial services. On another front, cognitive aging refers to difficulties to carry out a financial transaction due to worsening cognitive abilities. This either triggers difficulties in using non-face-to-face financial services (digital divide), or leads to other accountability issues, e.g. the legal effect of a financial decision. The digital divide

1) Population Projections for Korea in 2019, Statistics Korea. First-generation baby boomers will turn 65 years old in 2028, whereas he youngest second-generation baby boomers born in 1974 will turn 65 in 2040.

can be eased by digital education as the post-baby boomer generation, unlike the precedent generation, has higher digital literacy as active senior citizens. However, the problem of cognitive aging undermining decision making abilities could cause further issues, e.g., a financial consumer protection issue, and a dispute over legal liability of a financial transaction.

Second, older adults engage in economic activities that are quite different from those of the working age population. In their life cycle, their main economic activity is consumption by generating income streams from their assets accumulated as a result of lifetime production activities. Hence, what counts the most in finance is a service that creates an income stream from their assets, e.g., real estate, financial assets, etc. Also necessary is to provide them with proper asset management services taking into account their asset profile. Those aged 65 or over hold 80% of their assets in real estate, and 20% in financial assets including risky assets such as equity. According to the overseas trend on age-friendly banking, two products have particularly been on the rise: drawdown products to generate income streams; and trust services to manage real estate and financial assets at once. Third, older adults have a unique motive and purpose for asset management. The goal of asset management in the working age population is purely a financial gain. They want to manage a portfolio optimized for their own risk and return appetite. However, financial gains are not the sole goal of older adults. They also have a strong desire to safely transfer their property rights by inheritance, etc. Presumably, demand for financial services that meet such dual needs is expected to rise further. Overseas cases show that trust services can surely meet both needs.

Given the three unique characteristics of banking for older adults, it seems desirable to seek ways to improve the current regulatory framework in three areas—accessibility, financial abuse, and service innovation.

Accessibility: New offline policy to shore up non-face-to-face finance

Improved banking accessibility is an inevitable trend as non-face-to-face services are expanded to older adults as well. Fortunately, the post-baby boomer generation has higher digital literacy, compared to those in their 70s or older.[2)] Because older adults are active seniors

2) According to the Bank of Korea (2019), only 6% of those in their 70s are using mobile banking, while the figures are 19%, and 51% among baby boomers in their 50s and 60s, respectively. For reference, 76% of those in the 40s use mobile banking. As the reason behind the lowest mobile use in the 70s, most respondents report that they've never heard of mobile banking, which implies the importance of financial education (Bank of Korea, 2019, Survey on mobile banking service penetration in 2018).

familiar with digital banking, an expansion of non-face-to-face financial services is a desirable direction in the long run. Still, mobile digital finance for older adults experiencing physical and cognitive aging shouldn't be the same as that for younger adults. This requires a mobile application that is designed to provide older adults better access to digital finance.

Even so, mobile finance itself cannot completely eliminate the accessibility problem, which also requires offline policy aimed at financial inclusion. Thus far, the primary purpose of financial inclusion policy has been to enhance banking access of low incomers. This made major policy actions focus on addressing financial exclusion problems related to lack of repayment ability of low income earners. As the World Bank accurately points out, banking accessibility of older adults has been overlooked and less discussed, although it is a major area of financial inclusion. Going beyond the existing policy, the focus should be extended into how to enhance banking access of older adults with physical challenges. Because the proximity of an offline branch is a major indicator of service satisfaction among older adults, enhancing baking accessibility for the elderly can at the same time bolster regional banking. And this is exactly where conflict may arise between regional banking for older adults and the recent banking shift away from offline towards online for the sake of shareholder value amid the fourth industrial revolution. Hence, the key to banking policy for older adults lies in how to address that conflict. Overseas cases suggest roughly three policy directions with regard to this issue. First, individual financial firms identify the adverse impact of offline branches on the regional community and their customers, and come up with solutions and alternatives to address the impact. For example, the UK tried to deal with the closure of many offline branches with individual firm-level effort. Financial firms came up with alternative services after analyzing the impact of the closure on the regional community and existing financial customers.[3] The rationale behind this is that branch policy in the aging society should see beyond the business perspective and consider externality and publicness of finance as well. Second, it's worth looking at mobile branch banking, in another words, outbound service. UK-based Royal Bank of Scotland is operating mobile branches, 22 in Scotland and 14 in England, both of which are regions that faced many branch closures in 2016. Given the cost and range of mobile branch banking, this requires more than individual firm–level efforts. Financial firms in different subsectors, such as a bank, a brokerage firm, an insurer, etc. may join forces to set up a joint branch providing a comprehensive set of financial

3) BBA, 2017, Access to Banking Protocol. The UK is pushing for alternatives such as video banking, post office banking, joint branches, mobile branches, etc.

services. Also possible is forming a business alliance with post offices and mutual savings banks. Third, doorstep banking could be a solution. Introduced as part of financial inclusion policy in Japan, doorstep banking is a financial service where a bank officer visits the home of physically challenged older adults. Korea already unveiled the financial product distribution business and investment advisory business, which could form a regulatory framework for doorstep banking. A doorstep banking service may combine digital finance with complex financial products as is the case in the IFA in the UK.

Preventing financial abuse with guardianship and digital monitoring

Another important element in designing age-friendly banking is cognitive aging that includes diseases such as dementia and less serious conditions such as mild cognitive impairment (MCI). Cognitive aging could undermine accountability and credibility of financial decision making, which could be a drag on the development of age-friendly banking.[4)] In particular, it is a primary cause to financial abuse where older customers are often get preyed upon by their acquaintance or a third party, ending up in losing their financial assets. As a preventive measure, other nations have introduced guardianship, a digital monitoring application, etc. Also worth considering is ex-post measures such as an administrative compensation system. Korea also has guardianship in place, but this has yet to take hold for age-friendly financial services. In a worst case, a guardian who is supposed to offer advice on and carries out financial decisions could prey on the elderly. This clearly shows that guardianship alone cannot effectively prevent financial abuse. What's widely seen in overseas cases is to oversee guardians with either a digital monitoring system, or a trust. As one of the key functions in financial services applications for older adults, digital monitoring identifies any abnormal signs in asset management and financial transaction activities of the elderly. Eversafe in the US, and Kalgera in the UK are good examples. Admittedly, it may be meaningless to notify an elderly customer with MCI of any abnormal sign. This is why since 2018 the US has introduced the FINRA provision under which a customer shall provide information on the trusted person when opening a bank account. Korea also has a similar rule applied to only few investment products. For the sake of preventing financial

4) Among the elderly population in the US, 3% and 9% of those aged 70–74 had dementia and MCI, respectively, and 15% and 30% of those aged 80–84 during the period between 1994 and 2014 (FRB Philadelphia, 2018, CFI IN FOCUS: Addressing the Financial Well-Being of Older Adults). A survey in Japan showed that about 30% of those aged 65 or over had MCI or more severe cognitive disorder (Daiwa Institute of Research, 2018, Financing in Aging Society and Responses).

abuse, it seems desirable to extend the rule to overall financial products for senior citizens. Also worth considering is an arrangement to help victims of a fraud receive financial compensation faster, e.g., Fair Funds established by the Securities and Exchange Commission in the US. It's worth thinking about expanding this to overall financial products at a time when the Financial Consumer Protection Act is bolstering fines and penalties.

Product innovation: Drawdown products and comprehensive trust services

In Korea, it's hard to find many financial products tailored for the elderly, e.g., drawdown products that generate income streams, and asset management products. Thus far, Korea's financial services lack in both areas. This stems from two reasons. First, the elderly took up a relatively low percentage of Korea's population. Second, the short history of private pensions made investors less interested in drawdown products to generate income streams as compared to asset management products whose primary goal is to increase wealth. However, demand for drawdown products is projected to grow exponentially as Korea's now 8 million elderly population will grow to 12 million in a decade and to 17 million in two decades. In line with that projection, Korea needs a regulatory overhaul that facilitates innovation in this area, e.g., drawdown products designed to meet the demand for investment returns as well as income streams. For example, rapidly growing target date funds (TDF) have so far been recognized and designed as an investment product. However, it's possible for them to offer a drawdown feature. Such an example is found in the US where annuities are allowed to be incorporated into TDFs. This means that investors invest in a TDF during their service period, to annuitize it later. This well shows an example of service integration by bringing innovation to the accumulation and distribution phases of financial assets.

In the meantime, Korea has underdeveloped asset management services for the elderly to effectively manage and administer their assets. Not only do older adults have a diversity of assets from real estate to financial assets, they also have a complex set of financial motives, e.g., passing on their property rights. Although trusts are perhaps the only service that could meet the dual needs of the elderly, Korea's trust market has yet to fully take shape. In this regard, it's desirable to actively facilitate the development of comprehensive trust services. They have been on the steep rise in the aging society such as Japan and the US, fully taking hold as an important premise to the trust services related to transfer of property rights, e.g., a will substitute trust, a will trust, a gift trust, etc. Last but not least, it's important to note that trust services can be a useful tool to alleviate the risk of financial fraud and abuse associated with cognitive aging. An effective arrangement for this particular purpose would be a guardianship trust where a guardian is neither a trustee's acquaintance nor a third party but a trust entity (financial firm) overseen by financial authorities. Or a trust entity can oversees the guardian. Guardianship trusts are proven effective to prevent financial fraud by a third party.