

# **Towards a more vibrant and resilient economy: A Japanese perspective**

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## **1. What are the key risks, trends facing the global insurance sector and the related priorities for the IAIS for the coming years?**

2025 marks the beginning of a pivotal phase for the IAIS as we embark on our Strategic Plan for 2025-2029. The plan is the culmination of extensive collaboration and discussion with our members and stakeholders and sets a clear direction for the next five years.

Following a period of intensive standard setting, we now shift to a greater emphasis on supporting globally consistent implementation of the IAIS' standards, notably the Insurance Capital Standard (ICS), and supporting members in implementing effective supervisory practices. At the same time, assessing key risks and trends impacting the global insurance sector through our annual Global Monitoring Exercise (GME) will remain a priority.

Amidst global trends expected to shape the insurance landscape over the next five years, the IAIS has identified three strategic themes that feature prominently in its work programme: climate-related risks, digital innovation including the use of AI and cyber risks, and the need for insurance to fulfil its societal purpose of building resilience, including addressing natural catastrophe protection gaps.

Representing insurance supervisors from more than 200 jurisdictions, our focus is on supporting members in their efforts to strengthen insurance supervision. We have firmly established ourselves as a standard-setting body within the global financial architecture. As our work increasingly intersects with broader policy objectives, we will strengthen our collaboration and engagement with international forums and organisations to ensure alignment and consistency on key issues. Partnerships with international organisations, for example building on joint work for the IAIS-IMF High Level Panel on insurance protection gaps and the insurance sector last year, or the IAIS and World Bank contribution to the G20 this year, will be crucial in addressing the complex societal challenges ahead.

We have now turned our attention to putting the Strategic Plan into action. The IAIS Roadmap 2025-2026 highlights our focus areas for the next two years.

## **2. How do you assess the situation and prospects for energy transition in the EU, Japan and globally? What are the main obstacles to this transition and what initiatives could overcome these obstacles?**

The global economy witnessed a sharp rise in inflation due to high energy prices, severely impacting the EU, and to a varying degree, Japan as well. The impact on the real economy coupled with geopolitical considerations makes it challenging for the EU as seen in the Draghi report and the recent Omnibus package on corporate disclosure. Japan is facing similar challenges, albeit to a lesser extent given that we relied on more expensive fuel sources.

Japan has long been a strong advocate of transition finance. We take a roadmap approach rather than a taxonomy approach. Instead of focusing on what is green and brown, we emphasise inclusivity and the need to encourage all sectors to contribute to the transition. Mapping out the path to transition is the ultimate challenge we must tackle.

Japan will continue to aim for net-zero by 2050. With this in mind, the Government decided its Strategic Energy Plan last month which outlines our direction on energy policies towards 2040.

The plan aims to strike a right balance among meeting our transition goal, ensuring energy security and promoting economic efficiency, which some have called a trilemma. The Plan looks to achieve a balanced power source composition that does not excessively depend on a specific power source or fuel source. The lesson learned from last year is that we need to shift to energy sources that are not prone to inflation, while also acknowledging the reality that we cannot completely do without traditional fuel sources, at least for now.

The plan also identifies areas of potential future innovation with implications for future public support, including possible deregulation, provision of subsidies, tax breaks and development of carbon markets. It provides clear signals to the private sector so that they can seize the business opportunities ahead.

To operationalize transition finance, the FSA has launched the Asia GX (Green Transition) Consortium to exchange views with ASEAN countries. Public and private sector participants will reflect on transition finance and while upholding high ambitions, we need to be practical and flexible in our work, including through public and private partnerships towards achieving a common goal.

**3. How has the implementation of Basel III rules affected Japanese banks? Following the postponement of Basel III implementation in several jurisdictions, including the US and UK, are the Japanese authorities considering modifying some of these rules?**

In Japan, the Basel III has been implemented in three phases and for internationally-active banks and banks using internal models, it has been implemented from FY 2023

financial statements. We have not seen any significant changes in corporate or retail financing or market activity at this point. This could be attributed to the substantial lead time for banks to implement Basel III along with the Japanese economy's shift towards post-deflation. We will, of course, continue to carefully monitor banks' business operations and capital positions.

The impact of Basel III implementation could vary depending on banks' balance sheets and the nature and focus of their businesses, making it challenging to describe its impact in one word. For example, the impact of the increased risk weighting of equity holdings can differ depending on the proportion of their cross-shareholdings. The extent of usage of internal models could also result in varying effects on respective capital adequacy ratios.

We are aware of the recent delays in major jurisdictions, including the US, the UK, and the EU. Looking back, the key objective of finalising Basel III was to reduce excessive variability of risk-weighted assets and we believe this still holds true. The Basel Committee's work plan, as endorsed by the GHOS in February 2025, notes that full, consistent and timely implementation of all elements of the Basel framework remains a priority for the Committee.

The current discussions seem to emphasize the notion of a level playing field. While I understand the rationale behind this, we should be very careful that stressing a level playing field does not result in a 'race to the bottom'. We cannot compromise global financial stability in the name of ensuring a level playing field on a jurisdictional level.

Japan will continue to support the Basel Committee's message on Basel III while carefully monitoring developments in other jurisdictions during the transition period.

**4. Based on Japan's experience with the NISA savings account and the J-FLEC financial literacy initiative, what key drivers could Europe consider to better direct household savings toward long-term market-based investments?**

The EU and Japan share a common challenge: a predominantly bank-based finance system coupled with the need to mobilize savings towards investment opportunities.

Japan has long suffered from deflation and low economic growth. However, we are finally about to overcome deflation. Last year, the Japanese economy showed strong signs of recovery, such as record wage increases of over 5% for the first time in 33 years. Equity prices and private capital investment also hit record highs.

One of the key drivers of this trend is the FSA's initiative to promote Japan as a leading asset management center. It encourages the whole investment chain to shift household savings from cash and deposits to investment products. Prime Minister Ishiba leads this initiative by taking decisive actions based on a holistic approach.

On the retail front, the core initiative is NISA, an investment scheme that exempts capital

gains and dividends tax. NISA was revamped in 2024, increasing the investment limit threefold and making it permanent. It consists of 2 segments: accumulative diversified investment and growth investment. Another key feature is that it is eligible for overseas investment products, allowing investors to capture opportunities abroad as well.

NISA has been remarkably successful. The number of accounts reached 25 million, meaning one out of every four people has a NISA account. The account purchases hit 18 trillion yen, tripling from the previous year. It has caught fire, particularly among the younger generation. In addition, we are working to reform iDeCo, a retirement pension plan, by proposing to increase its ceiling on tax-exempt contributions.

To ensure that retail investors are well informed, J-FLEC (Japan Financial Literacy and Education Corporation) was established last year. It operates as a public-private partnership to improve financial literacy. It certifies financial advisors, dispatching them to schools and corporations. They also provide initial financial incentives to individuals seeking advice.

We are also accelerating corporate governance reform encouraging corporations to be more efficient and attractive to investors. Finally, we aim for a vibrant asset management sector supported by prudent asset owners who can optimize returns. We have introduced incentives including setting up special zones and developing emerging managers programs. We are seeing encouraging signs on both fronts.

We will continue to thrive on our initiatives and would very much welcome interest from European financial institutions and investors.