

Inclusive finance initiatives by worker-owned labour banks

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Today's presentation

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Introduction

- Rokin (labour banks) were founded by initiatives of trade unions and consumer co-ops to give financial access to workers and consumers since 1950.
- They have evolved to the worker-owned co-operative banks under the pressure of institutional and competitive isomorphism.
- Worker's welfare enterprises (WWEs) set up by workers/consumers are emerging as new actors for social inclusion and social/solidarity economy.
- Rokin banks have made innovations in social finance as a financial center of WWEs, contributing to attain the SDGs.

1. Brief history of Rokin banks

- Trade unions legitimized under the American occupation rapidly expanded to gain control on their working conditions while consumer co-ops had mushroomed to cope with serious shortage of food after WWII.
- National Council of Workers' Welfare (Rofukukyo) set up by unions and co-ops to cope with serious shortage of food and create worker welfare enterprises in 1949.
- First Rokin banks were set up as credit co-ops in 1950.
 - Okayama Rokin was established by Okayama Consumer Co-op Union.
 - Hyogo Rokin and other Rokin banks were set up by trade union's initiatives.
- Labor Bank Act was enacted in 1953 as an organization law.

1. Brief history of Rokin banks

- Rokinren national federation was established in 1955 while Rokin banks were set up in all prefectures in 1966.
- Steady growth with asset accumulation saving schemes (*Zaikei*) and housing loans under trade unions' support in tandem with economic growth and co-operative labor relations.
- Launched national campaigns for eliminating consumer debts problems connected with credit cards and consumer loans together with consumer and worker networks since the 1980s onward .
- Consolidated to 13 regional/prefectural Rokin banks by mergers but nationwide merger plan was suspended by FSA in 2010.
- Exhibited resilience to the Lehman Shock and natural disasters.

2. Institutional framework of Rokin banks

- Labor Bank Act as an organization law specified to Rokin banks with not-for-profit and co-operative principles.
- Membership consists of trade unions, consumer co-ops, public bodies and worker's groups (in SMEs) while individual workers can become members without voting rights.
- Mainly consumer finance and limited business finance.
- Non-member trade is limited to 20% of member trade.
- Banking Act as a business law applied to all financial institutions.
- Subject to double supervision by MHLW and FSA.

2. Institutional framework of Rokin banks

	Rokin bank	Agricultural Cooperative	Credit Cooperative	Shinkin bank	Commercial bank
Governing law	Labour Bank Act	Agricultural Co-ops Act	SME Co-ops Act, Act on Co-op's Banking	Shinkin Bank Act	Banking Act
Corporate status	Not-for-profit cooperative owned by members	Not-for-profit Cooperative owned by members	Not-for-profit cooperative owned by members	Not-for-profit cooperative owned by members	Joint stock company
Supervisor	Premier (FSA Commissioner) and MHLW Minister	Premier (FSA Commissioner) and Farm Minister	Premier (FSA Commissioner)	Premier (FSA Commissioner)	Premier (FSA Commissioner)
Operating area	Defined by bylaws	Defined by bylaws	Defined by bylaws	Defined by bylaws	Unlimited
Membership	Trade unions and other organizations	Farmers, residents	Residents, SMEs	Residents, SMEs	No membership
Deposit	Members in principle*	Members in principle*	Members in principle*	Unlimited	Unlimited
Loan	Members in principle*	Members in principle*	Members in principle*	Members in principle	Unlimited

* Non-member use is allowed up to 20-25 per cent of the whole or member's trade.

2. Institutional Framework of Rokin banks

- Strong pressure to institutional isomorphism
 - All banks are subject to regulations based on the Banking Act and the FSA's supervision and inspection.
 - Bank of Japan pursued unconventional financial easing policy (zero or minus interest rate) giving negative impacts to the industry.
- Strong pressure to competitive isomorphism
 - Mega banks entered retail banking directly or thru money lenders.
 - Local banks operate in the same market (housing/education loans etc.).
 - Co-operative banks for SMEs and farmers also compete each other.
 - Fin-tech and cashless society bring the unprecedented competition.

3. Organizational structure of Rokin banks

- Rokin bank as a secondary organization of trade unions and consumer co-ops while workers and consumers are indirect constituents/beneficiaries.
- Trade unions as major owners and supporters.
- Workplace promotion scheme for advertising and feedback has been pursued at branch, bank and prefecture levels.
- 13 Rokin banks, Rokinren Bank as a national consortium and NALB as a general association.

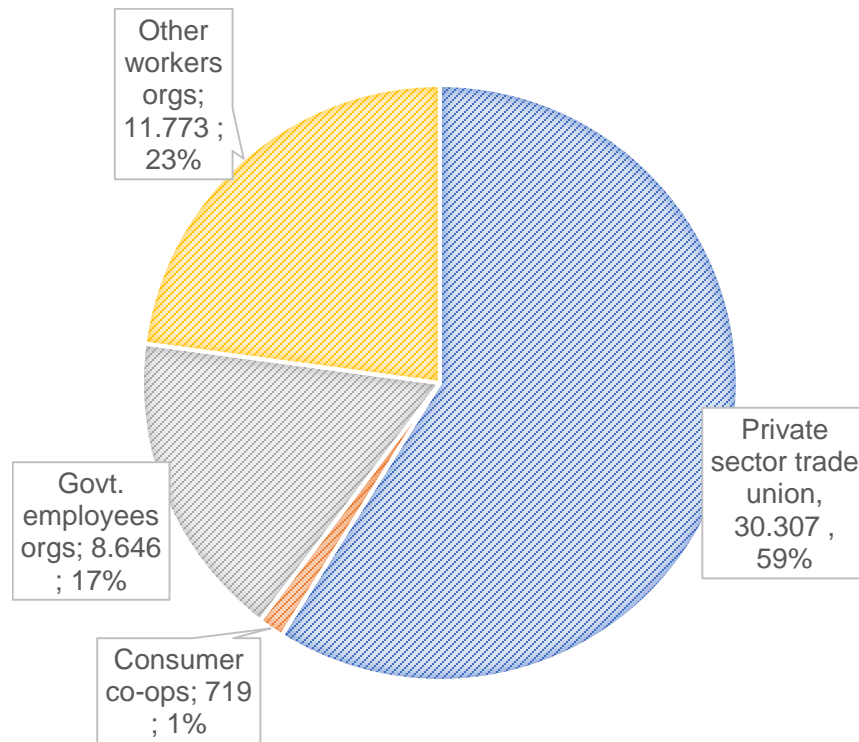
3. Organizational structure of Rokin banks

Organizational chart

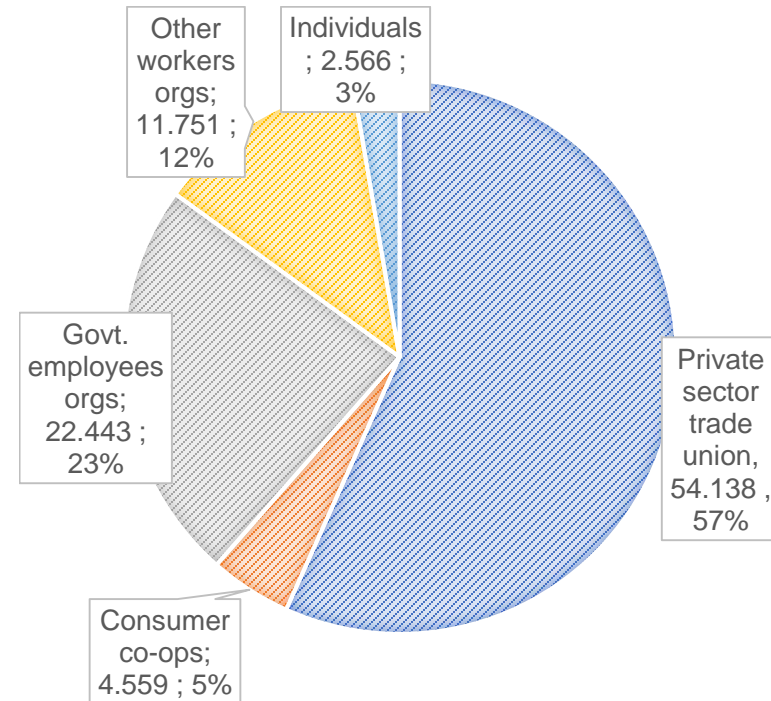


3. Organizational structure of Rokin banks

- Composition of membership



Composition of share investment
(¥ million)



3. Organizational structure of Rokin banks

8 regional banks and 5 prefectural banks operating 629 branches throughout country.



3. Organizational structure of Rokin banks

- Promotion scheme
 - Rokin banks are owned and controlled by member organizations, in particular trade unions. They collaborate with unions in a number of ways. The most important collaboration is related to the promotion of Rokin Banks' services.
 - Rokin Banks have developed a member promotion scheme, which has three main purposes: to raise workers' awareness on Rokin Banks' services, to reflect workers' voices on the bank's products/services and to carry out autonomous activities such as financial literacy seminars.
 - Rokin Bank promoters are designated by unions in Rokin Banks' branch area. They are union leaders or members in charge of welfare activities and may constitute union's promotion committee. They play the intermediary role bridging the Rokin Banks and the members.

4. Rokin banks as financial institutions

- Products and services offered
 - Deposits: ordinary, current and saving accounts, time deposits, etc.
 - Loans: housing loans, education loans, car loans, loans to consumer co-ops/nonprofits etc.
 - Others: domestic exchange, credit/debit cards, sales of gov. bond etc.
- Impact on members/workers
 - Lower loan interest rate and charges.
 - Tellers often visiting workplaces and giving consultation.
 - Consumer education/information to enhance financial literacy.
 - Convenience thru national banking networks (exchange, ATM etc.)

4. Rokin banks as financial institutions

- Financial performance and positioning in financial market
 - The consolidated deposit outstanding of all Rokin banks, ¥19.7 trillion (US\$179 billion), is ranked eleventh among all Japanese banks (as of the end of March 2018).
 - The consolidated loan-deposit ratio of Rokin banks, 64.61 %, which is very close to that of the average loan-deposit ratio of all Japanese banks (65.53 %).
 - Rokin bank's consolidated capital adequacy ratio as of the end of March 2018 is 10.54 %, whereas the average ratio of Japanese domestic banks is 9.86 % on a consolidated basis.
 - Zero-interest policy gives negative impact: Rokin banks' consolidated yield on loan dropped from 3.6 in 1998 to 1.5 in 2018.

Rokin Banks' highlight of fiscal 2016

					(¥ mil.)	(US\$ thous.)
	2012	2013	2014	2015	2016	2016
Total Assets	19,073,010	19,324,827	19,730,409	20,391,911	21,229,990	194,770,552
Total Liabilities	18,081,755	18,318,295	18,658,225	19,244,663	20,091,897	184,329,330
Ordinary Income	311,293	309,480	294,583	293,798	278,031	2,550,744
Operating Income	305,655	301,989	290,514	289,674	274,687	2,520,069
Net Profit	34,479	28,388	31,674	32,237	24,905	228,487

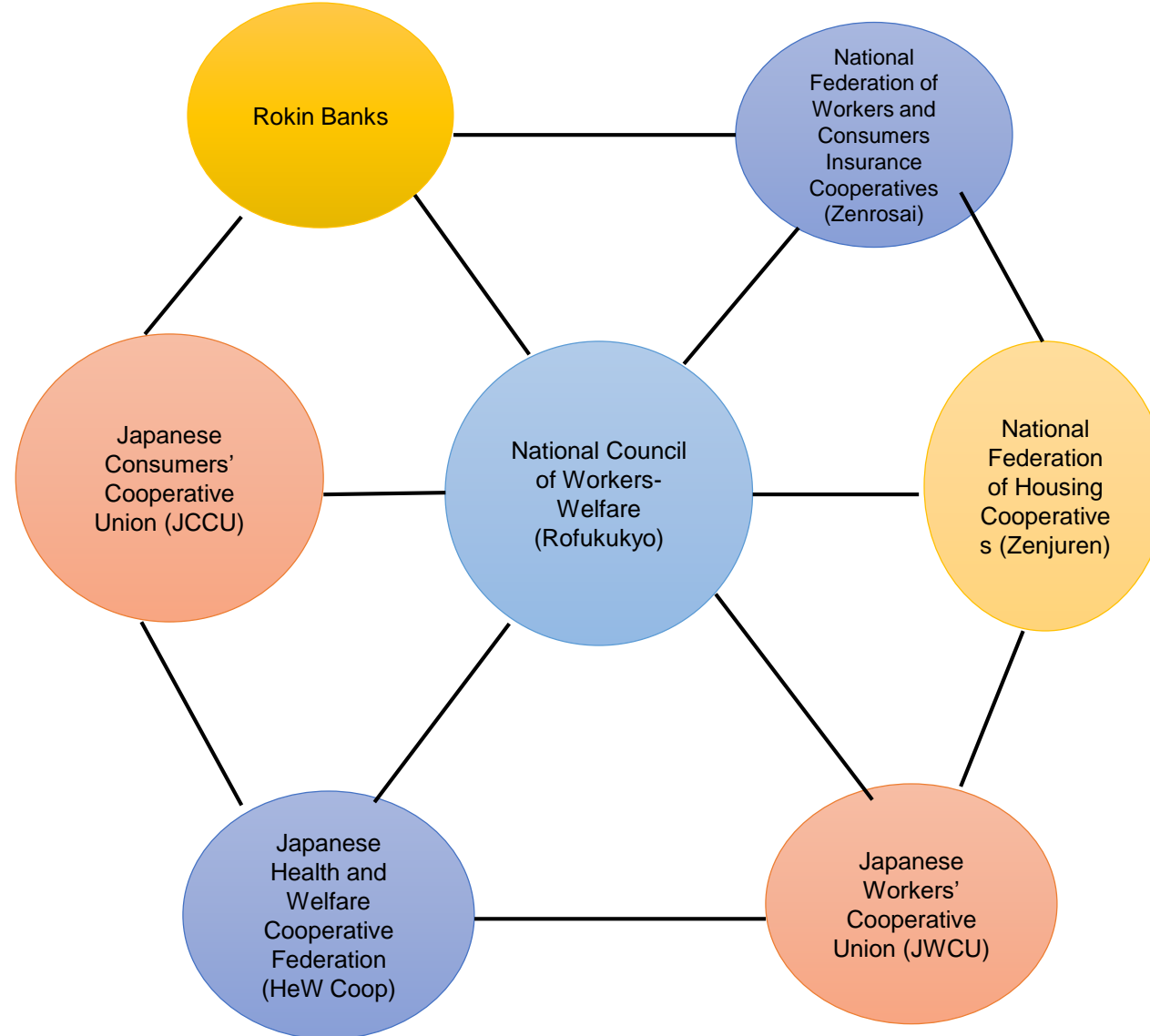
¥100.00=US\$1

Fiscal year ended March 31.

5. Rokin banks in worker's welfare network

- Independent worker's welfare seeks to supplement state's social welfare policy and to replace employer's benevolent actions (company housing, loans for employees etc.)
- Redefining the role of Rofukukyo since 2000
 - Expanding network of WWEs (Rokin, Zenrosai, JCCU + HeW Co-op, JWCUCU etc.)
 - Based on mutual help, extending help to those who need solidarity
 - Campaigning on problems associated with credit cards, consumer loans and student loans
 - Tackling with social exclusion of the poor and needy
 - Life Support Centers as one-stop consultation units on workers' labor/living problems

worker's welfare network



6. Innovation for inclusive finance

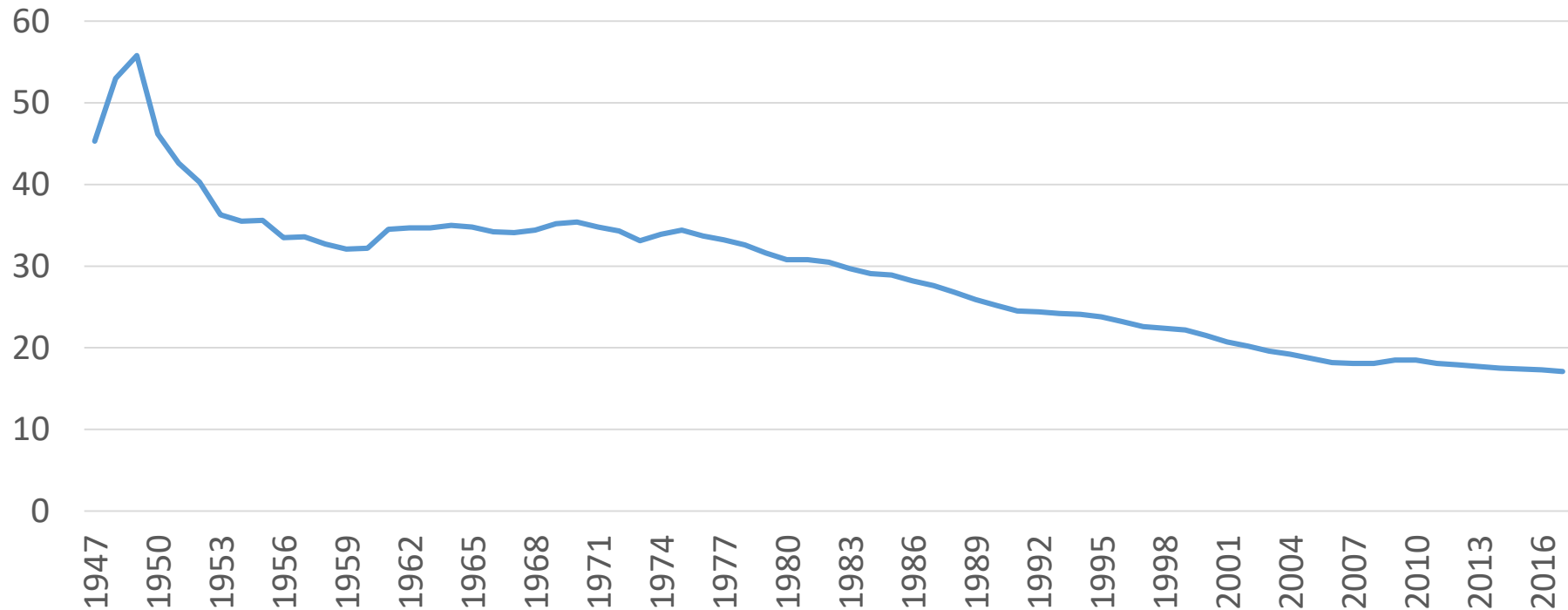
- Rokin banks have to work with Rofukukyo's network since banking is heavily regulated business.
 - Tackling with heavy debtor's problems thru consultation/refinancing and giving consumer education on money
 - Assisting debtors of student loans thru refinancing at lower rate
 - Consultation and support to the underprivileged by Life Support Centers and welfare funds created by Rokin's dividends to unions
 - Financing and management support for nonprofits
- These initiatives are conducive to attain the SDGs and the Future of Work's goals.

7. Challenges facing Rokin banks

- Aging and shrinking population
- Increasing poverty and social exclusion
- Declining unionization rate with shrinking membership basis
- Competition among banks under the zero-interest policy
- Advent of fin-tech and cashless society
- Risk of institutional and competitive isomorphism

7. Challenges facing Rokin banks

- Estimated unionization rate in Japan (%)



Conclusion

- Rokin bank's vision: Realize an inclusive society where people support one another
- Need to enlarge membership basis by approaching non-unionized workers and consumers
- Need to create a renovated business model by strengthening community networks
- Need to develop inclusive finance initiatives thru collaboration
- Need to contribute to the SDGs and the Future of Work

Conclusion

- Some lessons to be learnt
 - Management and leadership commitment to the cause of the workers
 - Unique regulatory framework of dual supervision
 - Integration in the national welfare system under the network of Rofukukyo
 - Strong partnership with trade unions
 - Convenience and human touch
 - Constant adaptation of products and services to the changing needs of workers

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