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**ROKIN Bank: The story of workers'  
organizations that successfully  
promote financial inclusion**

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Social Finance  
Programme

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## Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization*,<sup>1</sup> and which has now been widely adopted by the international community.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work,<sup>2</sup> in the Employment Policy Convention, 1964 (No. 122), and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body's Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.<sup>3</sup>

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.<sup>4</sup>

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

José Manuel Salazar-Xirinachs  
Executive Director  
Employment Sector

<sup>1</sup> See [http://www.ilo.org/public/english/bureau/dgo/download/dg\\_announce\\_en.pdf](http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf)

<sup>2</sup> See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

<sup>3</sup> See <http://www.ilo.org/gea>. And in particular: *Implementing the Global Employment Agenda: Employment strategies in support of decent work*, "Vision" document, ILO, 2006.

<sup>4</sup> See <http://www.ilo.org/employment>.

## Foreword

*ROKIN Bank: The story of Workers' Organizations that successfully promoted financial inclusion* is a detailed analysis into the Japanese's Rokin bank as a union-led financial institution aimed at ensuring fair and transparent inclusion of workers and their families in the financial market. The paper is divided into three sections. The first part offers a historical overview of the Rokin bank's principles and laws over the last 60 year, the second section reviews the versatility of the Rokin bank model pre- and post-economic and the last part discusses the challenges faced by Rokin bank in adopting and promoting banking with social conscience in the current fiscal climate.

Post-second World War Japan's rushed attempt to rebuild its economy by investing in its infrastructure and corporations left workers with little or no access to secure financial institutions. As a result, workers were subjected to high interest burdens, loan sharks and liquidizing of assets. In 1950 the establishment of the Rokin bank in Hyogo and Okayama as a financial organization with the central goal of promoting sincerity and openness while supplying fair and decent loans to workers was pivotal in developing a more balanced and inclusive banking system. The Rokin bank fundamentally differs in comparison to the so-called 'megabanks' as it offers basic bank accounts, with 99% of the money deposited by its customers utilized to support living expenses of individual constituents. Although the Rokin bank has been at the forefront in developing a socially aware financial market, its founders did not envision 50 years of almost constant decline in the country's unionization rate. Following the collapse of Lehman Brothers in 2008 and upon the request of the Japanese government, Rokin bank restructured and expanded its activities and devised the "Special Financing Program to Support Workers" as a means to support workers struggling with loan repayment conditions. In addition, the bank launched awareness campaigns on better personal financial management, created security loan funds for the unemployed and initiated education-led overseas development projects, such as the "Hearty Soshina Project". The success of the Rokin bank model has been down to its longevity in innovating flexible, accessible and responsive services enabling low income households to constitute small savings and obtain modest loans for everyday life uses (car loans, housing loans, education loans and so forth). With a fast growing need for financial institutions to take on more social responsibilities, Rokin bank with its 60 years of experience may serve as inspiration to institutionalize social finance for workers.

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## Abbreviations and Translations

CFCs	Consumer Finance Companies
FSA	Financial Services Agency
Gojyokai	Mutual aid group
JCCU	Japanese Consumers' Co-operative Union
MHLW	Ministry of Health, Labor and Welfare
MLBA	Money Lending Business Act
Rofukukyo	Council of Workers Welfare Associations of Japan
Rokin Bank	Labor bank
Shinkin Bank	Credit Union
Zenrosai	National Federation of Workers and Consumers Insurance Cooperatives



## Origin

This paper is an analysis into how the workers' bank 'Rokin banks' responded to the financial needs of workers post the economic crisis. Since 2008 many workers worldwide have lost their jobs because of the credit crunch and the contraction of the economy and demand for labor. This was aggravated by the fact that as taxpayers saw their governments offer large bail-outs packages to rescue banks, none of these banks realistically qualified as financial institutions geared to respond to the demands of average households and small enterprises. In turn Public opinion has come to consider the large government bailouts as unrepresentative and unfair economic policies. Lower income groups have to been forced to pay for the cost of the economic crisis while the principle actors of the crisis have remained untouched.

Since the collapse of Lehman Brothers in September 2008 the international community has put into question the fundamental structure of the financial markets. The G 20, notably, launched an initiative to commit governments to gear policies towards more financial inclusion, consumer protection and financial empowerment. A key element in financial inclusion policies is that markets benefit from a variety of business models of banking systems. It is generally considered unhealthy for a financial market or real economy to function under a single banking structure, such as that of Goldman Sachs. It is probably safer for a system to include cooperative banks, municipal savings banks, promotional banks, postal banks – in short: financial institutions that operate generally in a responsible manner, rooted in the local economy and set up to respond to the needs of the real economy.

Worker banks can be considered to belong to banking systems that operate much the above mentioned, i.e. banking system with a social conscience, institutions with a double bottom line. These forms of banking systems are in direct cohesion with the ILO's philosophies, illustrating services and advocacies of trade unions acting as methods to indirectly bring social banking to its members and complementing its core belief in collective bargaining on wages and working conditions. The need for such services may not be understood in a business upswing but every single financial crisis produces protests and calls for a greater say of worker organizations in the policies and regulations of financial markets.

The concept of a "Worker Bank" does not necessarily mean that the shares are held primarily by workers or their representative organizations. Rokin banks, for example, is a cooperative bank with a mixed institutional membership, trade unions, NGOs, worker welfare associations and so forth. What makes a "Worker Bank" a bank for workers is the flexibility, accessibility and responsiveness of its services as to enable low income households to constitute small savings and obtain modest loans for everyday life uses (car loans, housing loans, education loans and so forth).

Worker organization are key in ensuring a fair and transparent inclusion of workers and their families in the financial market, be this through referral services, individual counseling, courses on financial education or negotiation of bulk conditions in the insurance field and so on.

Rokin bank, stands out in this context. Not only has it remained faithful to its mission over 50 years, having carved itself a niche in the financial market of Japan, but has also withstood the repeated attacks of commercial "mega" Banks (something which cannot be said of other workers' banks worldwide).

This working paper seeks to identify factors that explain Rokin banks success and share the institutions good practices with other worker organizations in order to better prepare them for the next financial crisis.

# 1. Context

Since the Global economic downturn initiated by the Lehman Brothers' bankruptcy in 2008, many countries have experienced economic recovery with persistent high rates of unemployment. In response to the challenge of jobless growth, the ILO adopted a Global Jobs Pact in 2009, inviting member states to promote more fair, balanced and sustainable job creation. Nevertheless, the world's economy remains unpredictable, and people are left financially and economically excluded in many parts of the world.

Japan is no exception. Confronted with a recession and deflation, many companies have chosen to cut down on their personnel expenditures to withstand global competition during the crisis. As a result, increasing numbers of non-regular workers<sup>5</sup> and laid-off contract workers have suffered home loss, drawing attention to the inadequate safety net for the poor. Statistics show that the number of non-regular workers continued to rise until 2008 but fell in 2009 from 17.6 million to 17.2 million, all the while as the number of regular workers maintained a decreasing trend. Non-regular workers represent 34.1% of all employees excluding those in managerial positions. According to the Ministry of Health, Labor and Welfare (MHLW), 300,737 identified cases of unemployment were attributed to companies' refusal to renew contracts during the period between October 2008 and March 2011. Among sixty percent (177,501) of the identified cases, 2% of the involved individuals who lost their homes along with their employment, amounted to 3491 cases<sup>6</sup> of foreclosure.

During the G20 summits on Financial Markets and the World Economy<sup>7</sup>, the Financial Inclusion Experts Group (an initiative of the G20 Summit in Pittsburgh) developed a list of nine principles<sup>8</sup> to promote better accessibility of financial services to vulnerable peoples.

This report aims to promote an example of a successful model of a financial institution with a social conscience, which has withstood economic crisis and supported the lives of workers in Japan over the last 60 years. This model is based on union-led independent financial cooperatives for workers, called "Roudou kinko (Rokin banks)." This report will explore the function of these Rokin banks on the basis of extensive interviews conducted with their representatives and their associated members such as unions, cooperatives and the Japanese government. Additional background information has been supplemented by the Rokin Banks publicly available information posted on their website.<sup>9</sup>

<sup>5</sup> Non-regular workers are employees who are not regularly hired by their employers.

<sup>6</sup> The statistics are based on the data collected from 5,920 unemployment offices administered by MHLW between October 2008 as of December 17<sup>th</sup> 2010. The survey intended to cover people who were already unemployed or scheduled to be laid off by the end of March 2011. Unemployment which resulted from companies' refusal to renew contracts for non-regular workers has surfaced as a serious social issue, especially after the Lehman Brothers' shock in Japan. Given the nature of unemployment reporting, it is difficult to identify the exact figures of workers who were affected by the economic downturn. Thus the actual number of workers who lost their homes along with their unemployment is unknown.

<http://www.mhlw.go.jp/stf/houdou/2r9852000000z545-img/2r9852000000z55m.pdf> (accessed on Feb. 23 2011) (available only in Japanese)

<sup>7</sup> G20 Toronto Summit on June 27<sup>th</sup> 2010.

<sup>8</sup> Principles for Innovative Financial Inclusion

<sup>9</sup> *Rokin: English page*. Web. July 2011. <<http://all.rokin.or.jp/english/index.html>>.

## 2. Overview of Rokin Banks

### 2.1 History of Rokin Banks

The history of Rokin banks dates back to the post-WWII era when a large number of people lived in destitution and struggled to make ends meet. Following the General Strike in 1949, the “Nine Principles for Economic Stability” were introduced by the General Headquarters of the Allied Forces overseen by General MacArthur. A financial and monetary contraction policy (Dodge Line) was rigorously implemented as to enable Japan’s economic independence. Nevertheless, Japan plunged into economic turmoil with high levels of unemployment and increased practices of non-payment of workers.

Japan’s rushed attempt to rebuild its economy by investing in its infrastructure and corporations left workers with no access to secure financial institutions for loans<sup>10</sup>. The practice of usurious rates from loan sharks and liquidizing assets at pawn shops was pervasive. As a result, workers experienced great hardship being subjected to high interest burdens and severe collection methods.

In reaction to the increasing neglect of workers social justice and working conditions the Rokin bank in Hyogo and the Rokin bank in Okayama were established in 1950. The Rokin bank in Hyogo acted as a financial institution supplying fair and decent loans to workers, while Rokin bank in Okayama prefecture was established as a financial branch to help expand the operations of consumer-livelihood cooperatives which provided affordable consumer goods. The Rokin banks started their history as the only specialized financial institutions for workers in Japan with various support mechanisms including accessible funds for labor unions and special emergency loans for the victims of natural disasters.

Currently, there are 13 Rokin banks and 665 branch offices nationwide. Rokin bank membership is limited to labor unions, consumer-livelihood cooperatives and mutual aid organizations that represent a total of 58,958 syndicated groups. There are some individual members, however they account for less than 10% of Rokin banks’ entire constituent population<sup>11</sup>. Nevertheless, Rokin banks are generally viewed as financial cooperatives comprised primarily of institution members. The number of workers affiliated under this framework constitute of about 10 million individual depositors and borrowers. Rokin banks’ deposit balance is 16 trillion yen (\$192.4 billion<sup>12</sup>), which accounts for 2% of the total deposit balance in Japan. This means that Rokin banks would rank 12<sup>th</sup> in Japan if all

<sup>10</sup> "A Guide To Labour Banks." National Association of Labour Banks, Dec. 2010. Web. <[http://all.rokin.or.jp/english/documents/2010Guide\\_E.pdf](http://all.rokin.or.jp/english/documents/2010Guide_E.pdf)>.

<sup>11</sup> Article 11 Section 2 of the Labor Bank Law stipulates that individual membership is limited to those whose home address or workplace lies within the administered region of the bank. There were 116,041 solitary individual members and 9,913,000 institution-based individual constituents as of March 2010.

<sup>12</sup> 1 USD = 83.16 JPY as of Feb. 20th 2011

13 Rokin banks were to be merged into one entity. Rokin Banks' equity ratio is 11.15%, which is about three times higher than the assessment criteria for domestic operations<sup>13</sup>.

The component percentages of deposit balances are 39.18% for members of unions of private corporations, 29.34% for members of public workers' unions, 1.19% for cooperative members and 15.94% for other aggregated non-unionized groups as of March 2010.

**Table 1. Overview of main indicators for the Rokin Banks**

Number of Rokin Banks	13 Rokin Banks	As central agencies, there are The Federation of Labor Banks and the National Association of Labor Banks (an industry association)
Number of Office branches	665 branch offices	
Number of members	58,958 groups	Labor unions, cooperatives, mutual aid orgs, individuals in the regions. Constituents=9,910,000.
Number of individuals	116,041 individuals	Union members and mutual aid groups =10,020,000.
Deposit balance	¥16,362,400,000,000 (16,362 billion JPY)	\$196,758,056,758.06 (\$196.7 billion)
		€ 143,687,192,286.89 (€ 143.6 billion)
Loan balance	¥11,218,300,000,000 (11,218.3 billion JPY)	\$134,900,192,400.19 (\$ 134.9 billion)
		€ 98,514,033,957.86 (€ 98.5 billion)
Equity Ratio	11.15%	

(1 EUR = 113.875 JPY, 1 USD = 83.16 JPY; as of Feb. 20th 2011)

<sup>13</sup> The criterion is seen to be 8% or under for financial institutions engaged in international operations and 4% or under for those that only have domestic operations. Mizuho Financial Group, Inc.: 15.40% as of March 2010; Sumitomo Mitsui Banking Corporation: 16.68% as of March 2010; Bank of Tokyo-Mitsubishi UFJ: 15.77% as of September 2010; Osaka Commerce Association's Credit Union: 9.57% as of 2009; and Tokyo Credit Union: 9.55% as of 2009. (Reported figures from official websites)

## 2.2 Rokin banks' organizational structure

Figure 1. Rokin Banks organizational structure

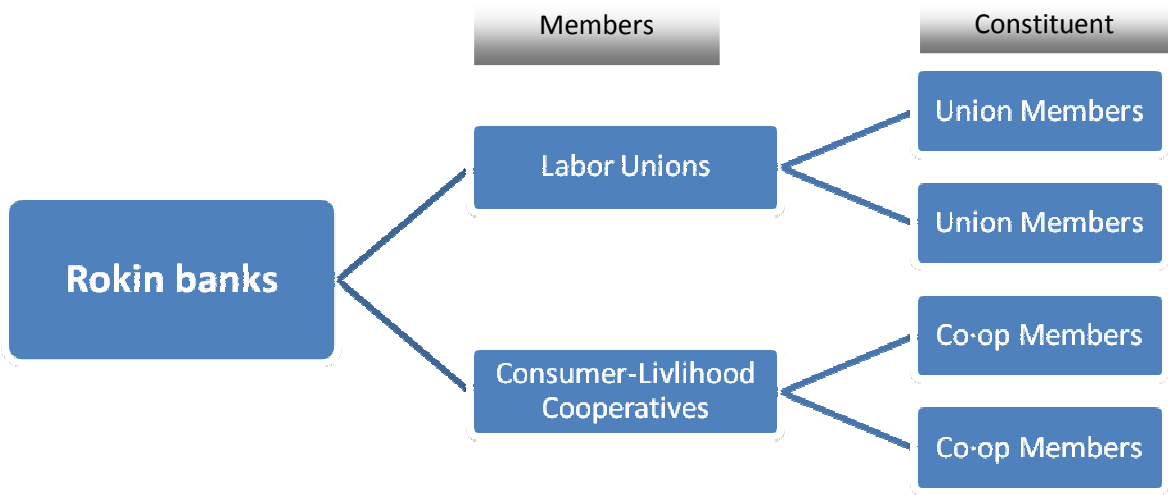
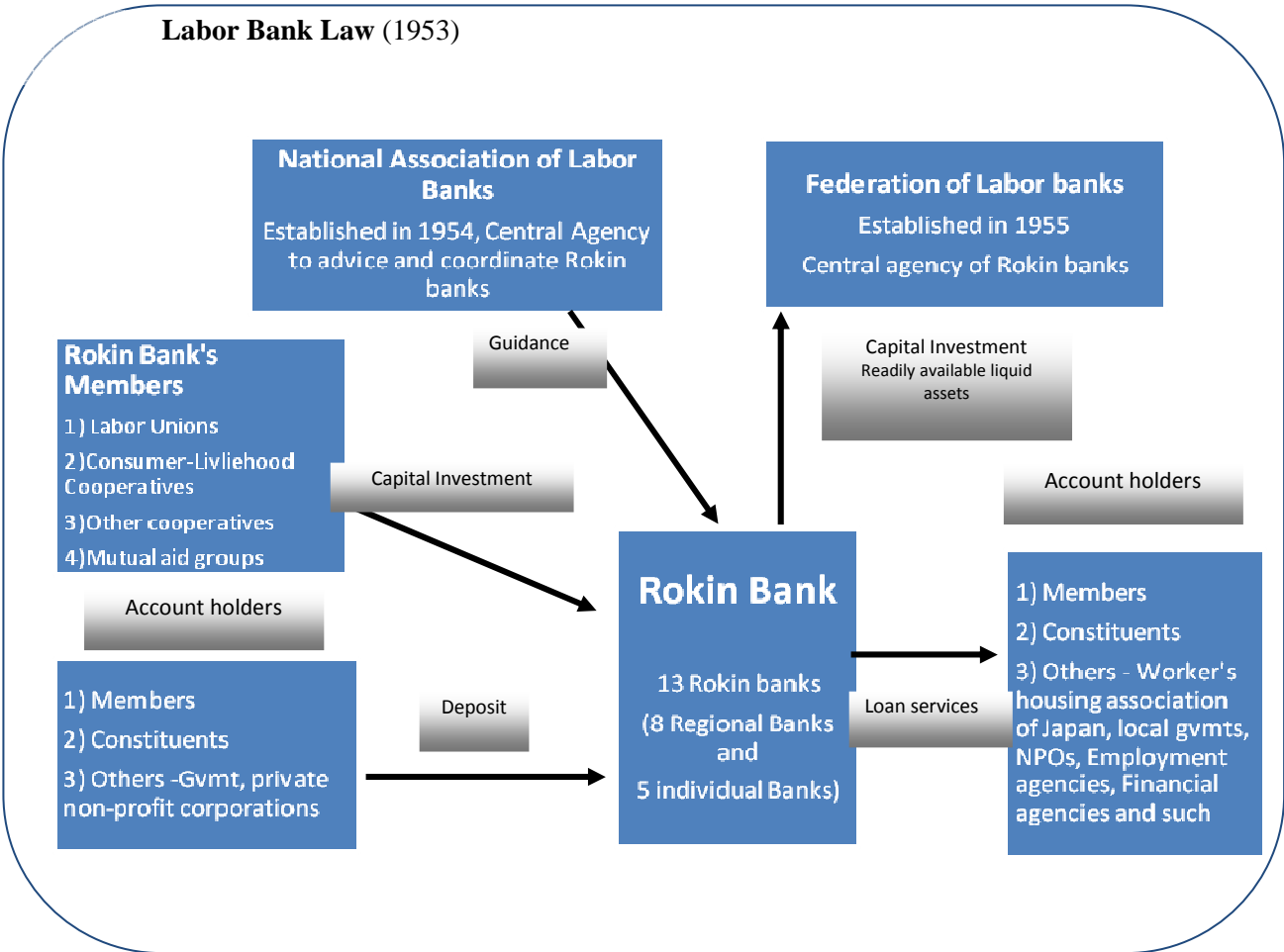


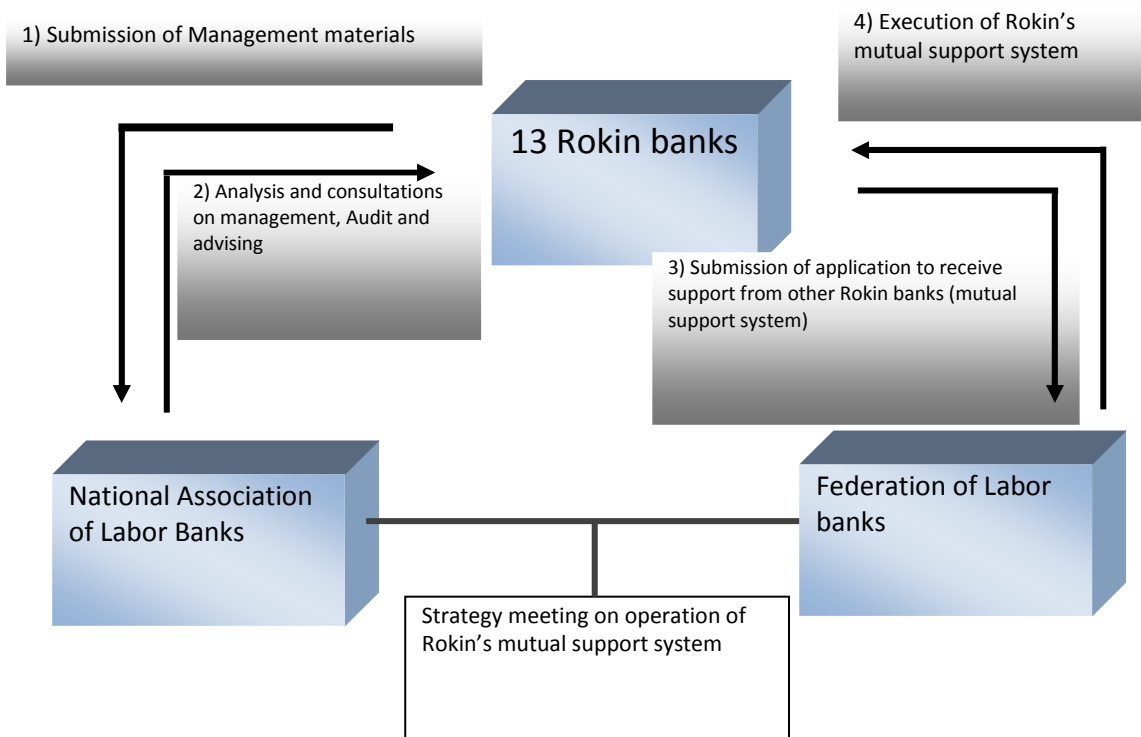
Figure 2. Rokin Bank according to the Labor Bank Law



## 2.3 Federation of Labor banks and National Association of Labor banks

The Federation of Labor banks is a financial institution established as a central agency for the purpose of streamlining efficiency and managing affairs that Rokin banks themselves cannot perform on their own. Their assistance can come in the form of arranging capital transfers between Rokin banks, mediating financial operations of public annuity payments, managing account transfers for public utility charges, as well as expanding credit capabilities and adding trust to business conditions etc. The National Association of Labor Banks, on the other hand, is an incorporated association of an industry groups affiliated to and represented in the 13 Rokin banks. The National Association of Labor Banks communicates with its competent authorities (the Financial Services Agency (FSA) and the MHLW) while also providing direction to the 13 Rokin banks in facilitating liaison among each of them. There is a mutual support system which is Rokin banks' unique mechanism of a safety-net to ensure sound management and to protect deposits from their members. This mechanism prevents bad management in Rokin banks and gives financial support for capital enhancement through the Federation of Labor Banks to increase management capacity.

Figure 3. Management structure of the Rokin Banks



## 2.4 Enactment of Labor Bank Law in 1953

When Rokin banks were first established in Hyogo and Okayama, they were founded under the Small and Medium-Sized Enterprise and Cooperatives Act. However, the act was unsuited for the scope of Rokin banks operations since the law was intended to govern finances in small and medium-sized businesses. Thus, the National Association of Labor Banks (Rokin Kyokai) was set up in 1951 and contributed to the establishment of the Labor Bank Law. After overcoming many challenges in drafting the law which required several resubmissions to the Diet, the Act finally came into effect in 1953. Attained through the hands of labor union workers, the Act has served as the base of guidance of Rokin banks for over half a century until present day.

Article 1 of the Labor Bank Law stipulates the goals of Labor Banks are to: 1) attempt to provide more accessible financing for the welfare and mutual aid efforts of labor unions and consumer-livelihood cooperatives; 2) promote sound growth; and 3) simultaneously contribute to improving the financial status of workers.

Article 5 of the Labor Bank Law stipulates that Labor Banks: 1) are not permitted to engage in enterprises for profit-making purposes; 2) must not engage in enterprises that are solely for the purpose of benefiting designated members; and 3) must remain politically neutral.

#### Rokin bank's philosophy

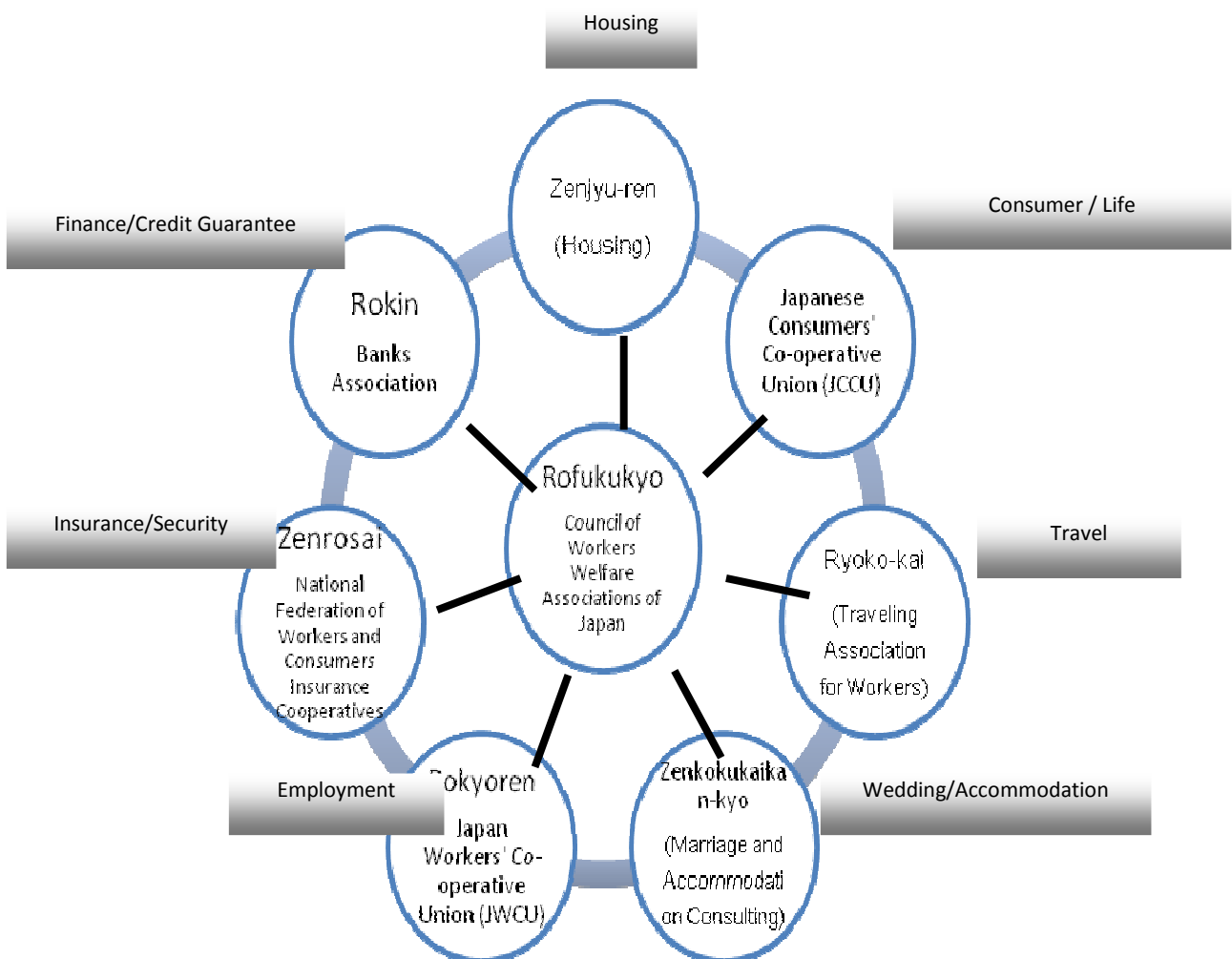
- Rokin banks are financial cooperatives that cultivate the dreams and ideals of workers.
- Rokin banks consider their objectives to be twofold: promote economic, welfare, environmental and cultural activities by their members; and create, through collaboration, a society in which all people can live in happiness.
- Rokin banks are formed from worker-based organizations and organizations that keep their doors open to a wide range of citizens. This network of member organizations is the essence of the Rokin banks.
- Members participate in the administration of Rokin banks as equals, seeking to improve the activities and projects of the banks. Sincerity, fairness, and openness are key Labor Bank values. By their commitment to sound management, Rokin banks will try to keep faith with their members.

The founding features and philosophies of the Rokin banks have been key in the banks survival. While many commercial banks and other financial institutions went bankrupt during the bursting of the Japanese asset bubble in the late 1980s after having risked large amounts in real-estate loans during the late 1980's, the Rokin banks adhered to the guidance of the law and its founding principles as a financial institution for a workers rather than profit allowing it to remain solvent while many other financial institutions suffered the serious devastating impact of uncollectable debts.

## **2.5 Network between other social cooperatives**

The figure below shows the network among other social cooperatives such as the Council of Workers Welfare Associations of Japan (Rofukukyo), the National Federation of Workers and Consumers Insurance Cooperatives (Zenrosai) and so on.

Figure 4. Network of social cooperatives



To understand the social aspect of Rokin banks, their association and institutionalization with other cooperatives must be taken into account. The diagram above shows the relationships among the entities that were created in the process of strengthening the worker's welfare movement. Centered upon the Association of Labor's Welfare Council (Rofukukyo), it reflects the principle of welfare that goes beyond sectional boundaries and calls for solidarity regardless of political and ideological differences among workers.

Although Rofukukyo used to play a larger role as a coordinating and advisory institution for the workers welfare movement, after the inception of the Japanese Trade Union Confederation, overlapping activities caused it to reposition itself as a general facilitator for gathering and communicating information across cooperatives and the general public. Rofukukyo acts as a method to relay the voices of consumers and workers to the government while strengthening bridges amongst the cooperatives in the Rofukukyo network.

Rokin banks, position themselves as social finance institutions in close collaboration with Rofukukyo. For example, the "Awareness-raising campaign on debt problems" which started in 2007 is one of the approaches taken to protect workers' from over-indebtedness. This initiative will be further explained in the following section.



What's Zenrosai?

Zenrosai is an insurance institution for workers (otherwise referred to as the National Federation of Workers and Consumers Insurance Cooperatives). Both Rokin banks and Zenrosai were established within the context of the *voluntary welfare movement* in 1949 and view themselves as family members of cooperation. Given their nature of both being cooperatives and having a similar customer base, they recently made a joint announcement to enhance their partnership. Together they organize seminars and consultations on various life related issues, provide services for children, challenged and aged people, and financially support the activities of NPOs and local communities. As an example of their approach to realize this partnership enhancement, Shizuoka Rokin Bank and Shizuoka Zenrosai opened new offices next to each other in the same building.

### **3. What makes Rokin Banks a workers' bank?**

#### **3.1 Rokin Banks' mechanism**

What makes Rokin banks so unique and distinguishable from commercial banks is their organizational structure established under the governance of labor unions. As previously mentioned, Rokin banks are comprised of 58,958 member organizations that include a constituency of 10,020,000 people. In compliance with Article 11 of the Labor Bank Law, unionized individual workers are called "constituents" and "direct members" refer to the organizations such as labor unions and cooperatives within each designated region of the 13 Rokin banks.

The strong relationship between Rokin banks and labor unions enables it respond effectively to the financial needs of workers. Under the arrangement, labor unions act as intermediaries, expressing the needs and interests of workers and at the same time act as agents for Rokin banks.

As a large percentage of the deposit balances comes from union members, Rokin banks heavily rely on targeted advertising and promotional campaign activities. Member worker organizations are given dividends in proportion to the volume of loans used by workers in their constituency. This serves as an incentive for unions to voluntarily disseminate information and promote services of Rokin banks at their worksites, contributing to a reduction in personnel and advertising expenses for Rokin banks. Supported by the strong relationship that has been built between the two parties, roughly 60,000 member worker organizations assist Rokin banks' activities through a number of branch offices nationwide.

#### *Case of Osaka City Office Workers' Union*

The Osaka City Office Workers' Union, which holds 12,000 members, representing a 95% unionization rate, conducts a publicity campaign for Rokin banks' products through their labor press as part of their voluntary welfare activities. Communication within the union is not always top-down. Comprised of 42 branch offices under 4 regional blocks, union members' voices and views are consolidated by each branch office and block, and then

reflected in the marketing and management of Kinki Rokin bank<sup>14</sup>. As a capital investor, the union is also involved in the Kinki Rokin bank's management through a board member who serves as a full-time executive member at Rokin Banks. Thus, Osaka City Office Workers' Union not only forms a bridge between Kinki Rokin bank and its own members (constituents), but is also actively committed to the management of the Rokin bank as a whole and the livelihoods of its other member unions. This illustrates an example of a business model founded on both vertical and horizontal mutual aid between the worker organization and the Rokin bank.

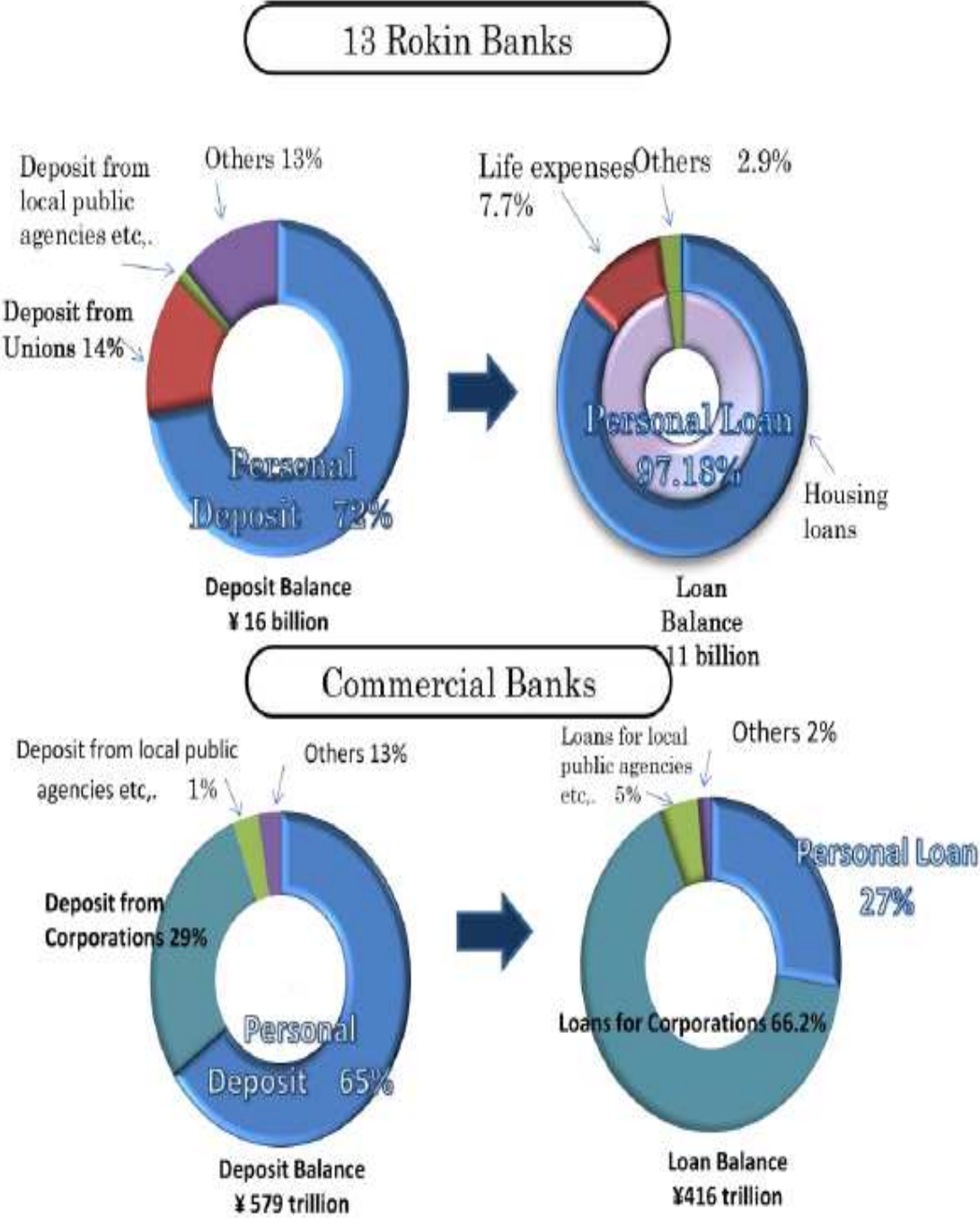
Models such as Osaka City Office Workers' Union have supported Rokin banks in serving as financial institutions for workers over the last 60 years and have enabled them to offer their constituents low interest rates on loans for housing, education, car purchases and cash advances.

### **3.2 Comparison between Rokin banks and commercial banks based on the breakdown of their deposit balances and loans (Total of 13 Rokin banks and Commercial banks)**

Rokin banks offer basic bank accounts and offer a product line similar to those of "megabanks". However, 99% of the money deposited by their customers is utilized to support living expenses of individual constituents such as housing and car purchases. Rokin banks' dedication to workers lies in the principle of mutual aid among workers and mirrors the image of a financial institution committed to the welfare of workers.

<sup>14</sup> Kinki Rokin bank is one of the 13 Rokin banks in which 5 Rokin banks were consolidated in 1998.

Figure 5. Comparison between Rokin Banks and commercial banks according to deposits balances and loans



**Table 2. Sales strategy on housing loans. Most targeted clients (Annual income) – Multiple answers possible**

	Sample size	Number of valid	More than \ 10million	Around \ 8million	Around \ 6million	Around \ 4million
Total	328	315	3 1.00%	51 16.20%	169 53.70%	102 32.40%
Commercial Bank Trust Bank	9	8	1 12.50%	8 100.00%	1 12.50%	0 0.00%
Regional Bank	60	55	1 1.80%	10 18.20%	36 65.50%	12 21.80%
The Second Association of Regional Bank	40	40	0 0.00%	5 12.50%	24 60.00%	11 27.50%
Shinkin Bank	174	170	0 0.00%	21 12.40%	89 52.40%	64 37.60%
Credit cooperative	19	18	0 0.00%	3 16.70%	9 50.00%	6 33.30%
<b>Rokin Bank</b>	12	12	0 0.00%	0 0.00%	5 41.70%	<b>7 58.30%</b>
Mortgage bank/ Others	14	12	1 8.30%	4 33.30%	5 41.70%	2 16.70%

Japan Housing Finance Agency (JHFA)“Trend Report on Private Housing Loan Services for 2009”

JHFA conducted a survey on housing loan services for the year of 2009 targeted at financial institutions which provide private housing loans. A total of 346 questionnaires were distributed out of which 328 received responses (response rate of 94.8 %.) Commercial banks and trust banks includes those such as Mizuho Financial Group, Inc., and Bank of Tokyo-Mitsubishi UFJ; Shinkin bank is categorized as a credit union.

Above table shows that Rokin Banks offer housing loans to lower income brackets in comparison to other commercial and credit union banks. About 60% and 40% of total loans from Rokin banks were provided to borrowers with annual incomes of approximately 4,000,000 yen and 6,000,000 yen respectively, while the main target base for the rest of banks is the population with annual income above 6,000,000 yen. Rokin banks have remained committed to offering their loan services with low interest rates to lower and middle income workers.

Another distinguishing feature of Rokin Banks is its close collaboration with labor unions in responding to workers’ financial needs throughout their lives. Rokin banks provide information and give concrete advice and proposals through consultations with constituent workers. Moreover, representatives of Rokin banks visit workplaces of constituent workers to build and maintain customer relationships.

Providing customer service at the workplace was particularly advantageous for customers prior to the emerging prevalence of ATM machines in the 1990s. Up until then, many workers struggled to access basic commercial bank services due to limited visiting time available to bank offices during business hours. However, the beneficial aspects of Rokin bank visitations go well beyond addressing the logistical concerns of having easy access to transaction services. Direct consultation has reinforced the mutual trust between Rokin Banks

and labor unions such that marketing expenses can be circumvented through active facilitation of services to worker clients. This allows for lower transaction costs as well as a concerted feedback mechanism which allows Rokin Bank to provide services that are much more cohesive to their workers' needs. Some examples are demonstrated through the following interviews with Suzuki Union.

### 3.3 Case of Suzuki Union<sup>15</sup>

Suzuki Union has been carrying out consultation sessions together with Rokin Bank on repayment plans and multiple/excessive debt problems. Suzuki Union designed its own leaflets on consultation services based on the information provided by Shizuoka Rokin bank and disseminates them to workers at their canteens. After appointments are made through the union, experts from Shizuoka Rokin Bank visit them in the offices of Suzuki Union. Rokin banks' consultation is provided free of charge and the union receives no remuneration for advertising Rokin banks' services and products aside from the dividends proportionate to their investment and utilization volume drawn from their operation surpluses. Suzuki Motor Corporation does not intervene in the activity of circulating leaflets on their premises because it recognizes the nature of the consultation and that it was in fact the union and the Rokin bank that created them. Indeed, the company acknowledges the positive value of the union's effort to tackle workers' monetary issues and to stabilize their employees' lives. The company even requests seminars to be conducted for new employees by Rokin bank through the union's arrangements. Such financial seminars offered by Rokin bank for Suzuki employees are sometimes held on weekends where union members actively participate voluntarily to keep the seminars running smoothly; for example, by providing childcare support for participants.

### 3.4 Four distinguishing activities of Rokin banks

#### *Consultation on revisiting payment plans*

After the Lehman Brothers collapse in September 2008, many workers found themselves in greater difficulty to repay their loans. A staggering figure shows that the average income<sup>16</sup> in Japan has declined by 614,000 yen (\$7,383<sup>17</sup>) from its peak in 1997. Consultation on revisiting payment plans is based on an initiative to urge workers with housing loan repayment difficulties to come to Rokin banks and seek advice from their financial experts. To support these workers, Rokin banks have set up a "Special Financing Program to Support

<sup>15</sup> Suzuki Union is a labor union for workers at SUZUKI MOTOR CORPORATION and was founded in 1950 in Shizuoka prefecture, Japan, and is currently comprised of 15,334 members. (92% of them are male and 8% are females of June 2010) It lies under the umbrella of the Federation of Suzuki Automobile workers' unions (25,550 members) along with other 15 Suzuki related unions.

<sup>16</sup> The latest available report from National Tax Agency shows that the average income of salaried workers was ¥ 4.06 million in 2009. By gender, these figures are ¥ 5 million (2.2% decline from 2008) for male and ¥ 2.63 million (2.9% of decline from 2008) for female workers. The report also says that there were 5.43 million male workers with annual income between ¥ 3 million and ¥ 4 million, and 4.86 million female workers with annual income between ¥ 1 million and ¥ 2 million, which together reflect the majority percentage of the whole workforce.

<http://www.nta.go.jp/kohyo/tokei/kokuzeicho/minkan2009/pdf/000.pdf> (accessed on Feb. 2011)

<sup>17</sup> 1 USD = 83.16 JPY as of Feb. 20th 2011

Workers” which moderates loan repayment conditions. Visitors at consultations benefit from the program either by 1) reducing the installment amounts and extending the repayment period; 2) limiting interest payments to a set period with the principal balance left unchanged during unemployment; or 3) reducing the amount of installments to personally designated amounts for a set period and extending the repayment period<sup>18</sup>. Consultation sessions are held on weekends at 341 branch offices, and 365 branch offices open long hours during the weekdays to provide customers added convenience. In the fiscal year of 2009, there were 7,240 consultation cases of all Rokin banks, out of which 2,067 cases were guided to repayment condition changes. Some cases involved multiple/excessive debt problems that were resolved during the course of consultations.

#### *Awareness-Raising Campaign on multiple/excessive debt problems*

Statistics<sup>19</sup> show that over the last 10 years, roughly 1 in 74 people in Japan have filed for personal bankruptcies in Japan. More specifically, there were 129,508 individuals that filed for bankruptcy in 2009, and as of March 2008, roughly 1.2 million people had been over-indebted with 5 or more debt accounts from consumer finance companies (CFCs). Of the 30,000 suicides committed on average each year 8,000 cases are attributed to economic reasons. This has surfaced as a serious social problem in recent years. Some of the factors behind multiple/excessive debt problems include usury, excessive lending, the ease of borrowing and a repayment system that overlooks the burden of interest, as well as insufficient knowledge of finance and planning by borrowers.

In response to this, working jointly with Rofukukyo<sup>20</sup> and labor unions, Rokin banks started taking measures against multiple/excessive debt problems by calling for an amendment of the Money Lending Business Act (MLBA). In addition, they set up new administration headquarters to provide support to workers through counseling. With a task force for multiple debt problems, they have been running awareness raising campaigns since 2006. Through their awareness raising campaigns, Rokin banks have promoted workers to refinance their high interest rate loans to the more decent, low-interest loans that they offered. In total, 10,926 consultations were made handling a sum of 29.5 billion yen (\$ 354.9 million) for the resolution of multiple/excessive debts throughout Japan in Fiscal Year 2009. Among these cases, 4,235 cases, worth a total of 9.98 billion yen (\$120 million), were refinanced to

<sup>18</sup> The difference between “1.)” and “3.)” is based on whether or not borrowers decide the amount of their payment. “1.)” is a total rescheduling of loans by reducing the amount of installments and expanding the repayment period while “3.)” allows borrower to choose the method of repayment after a temporal adjustment. Typically, “1.)” involves a longer period of repayment.

<sup>19</sup> Supreme Court of Japan (data available in Japanese)

<sup>20</sup> Rofukukyo and Mr. Utsunomiya (a lawyer) addressed the issue of excessively high interest rates in credit cards cash advances and loans offered by consumer finance companies. Volunteers from the labor and legal communities, consumer organizations and victim support groups came together in 2005 to ask for an amendment of the “Money Lending Business Act.” There was a difference between the limits set on interest rates between the Investment Act (29.2%) and the Interest Rate Restriction Act (15%~20% depending on the total amount of capital). The difference between the two Acts was referred to as a “grey zone” because in practice, no penalty was imposed when financial institutions such as consumer finance companies violated the Interest Rate Restriction Act unless the rates exceeded the limits of the Investment Act as well. Rofukukyo and its network fought against the companies which took advantage of people through this loophole. Their approaches to the Diet and politicians yielded the result of lowering the interest rate limit in the Investment Act from 29.2% to 20% effective as of June 2010. The amendment also imposed more responsibilities on lenders and regulated easy and aggressive lending.

Rokin Bank loans.

### *Employment Security Fund Loan Program*

The Employment Security Fund Loan Program is an initiative that was proposed in 2008 by the Government as a new safety-net for job seekers who lost their homes as a consequence of being laid off.<sup>21</sup> Rokin banks were requested by the government to support this program offering low-interest loans to the unemployed who had no home. From the management perspective of most financial institutions, providing loans to unemployed job seekers during a global financial crisis goes against customary practice because a rise in their loan default rate may jeopardize their business. However, bearing in mind their philosophy and conscious of their roles as social finance institutions, Rokin Banks chose to take on the program.

Although Rokin banks were compensated by the government with subsidies in the case of default, they demonstrated their remarkable operational capacity in providing social safety nets. The outstanding balance of loans under this program (for those who lost their jobs together with their homes) amounted to 9,476 million yen for 11,822 cases at the end of September 2010<sup>22</sup>, and 3,873 million yen for 15,731 cases for the “Training and Life Support Fund Loan” program which still continues to support job seekers today during vocational training.

A special clause exists in the Employment Security Fund Loan Program for borrowers to exempt them from repayment obligations if they are able to acquire a new job from a corporation that has subscribed to the government’s employment insurance program. 2,800 cases have been exempted from loan repayment under this mechanism. Including both those exempted from repayment and those still seeking jobs, Rokin banks have succeeded to protect peoples’ lives and support employment for a significant number of borrowers.

### *NPO project support loans to community organizations*

As financial institutions fulfilling social responsibilities, Rokin banks started providing loan programs to support the livelihoods of workers by financially assisting community-based nonprofit organizations (NPOs) in 2000 and social welfare organizations in 2005. Since March 2010, Rokin banks have approved 528 applications amounting to 3,473 million yen (\$41.8 million) in loans. NPOs authorized by the Nonprofit Activities Promotion Law, that have over two-years experience (including the period prior to obtaining corporate status), can apply for these loans if their offices are located within the Rokin serviced region. Bounded by law, Rokin banks do not offer business loans unless they are for the operational expenses of cooperatives and NPOs<sup>23</sup>.

Rokin banks are prepared to meet the projected growth in need for NPO support loans. Under the Democratic Party of Japan (DPJ) administration, a “New Public Commons”—mutual assistance among citizens, NPOs, private companies and the government—has been proposed, and actions announced toward institutionalization. The roles delegated to “social enterprises” are expected to be stipulated under the notion of the “New Public Commons”

<sup>21</sup> Many non-regular employees were forced to terminate or suspend their contracts due to the bad economy and to leave their dormitories/condominiums provided by their companies, which created a situation where they struggled to find their next job without basis of living.

<sup>22</sup> The program was aborted in September 2010.

<sup>23</sup> Loan supports for small and medium sized enterprises are provided by cooperative financial institutions such as Shinkin Bank (credit union), and credit cooperatives in Japan.

and Rokin banks are gearing up towards playing their roles as social financial institutions by accepting more social responsibility.

*“Hearty giveaway project” (Kokoro-no-soshina project)*

Kinki Rokin Bank started the “Hearty Soshina project” as part a social collaboration with their partnered non-profit organization ACCE in 2010. As common practice, Japanese banks often donate small gifts (soshina) such as daily household items to express their gratitude to customers using their deposit services. The projects objectives are based on the idea that budget for the small soshina would be better spent providing school meals for underprivileged Filipino children. In the Philippines, 17% of the population earn one dollar or less per day, 40 yen can provide a well-balanced nutritious school meal for a child. The project, designed through the contribution (survey) of the banks constituents, aims to maximize the use of its clients deposits to be directly linked to aid in the Philippines<sup>24</sup>. The advantage of this process is that it empowers the Rokin Banks constituents and members as decision makers and managers of the banks actions.

## 4. Challenges

### 4.1 Correlation between the declining unionization rate and the members of Rokin banks

However although the Labor Bank Law accords privileges it also imposes restrictions. In Article 11 of Labor Bank Law, stipulates that labor unions, consumer-livelihood cooperatives and organizations or associations operated by workers (mutual aid groups) are qualified to become members of Rokin banks. A declining unionization rate and a rise in non-regular workers prevent Rokin banks from expanding their memberships since they are predominantly union-led financial institutions and non-regular workers are usually not unionized. The unionization rate in Japan has been on a downward trend since 1950. In 2008, the nation’s unionization rate was 18.5% in which there were 10,078,000 workers affiliated to 26,696 unions<sup>25</sup>. A simple calculation based on these figures<sup>26</sup> reveals there are an estimated 41.4 million non-unionized employees (both regular and non-regular) who are potential constituents, yet fail to be reached by the Rokin banks. Although Rokin banks and its laws were established within the context of mutual aid cooperatives between labor unions, at the time of establishment, the founders probably did not envision 50 years of almost constant decline in the country’s unionization rate. Nevertheless, this makes it challenging for Rokin banks to reach out to non-unionized and non-regular workers who tend to be the most vulnerable, lacking financial access in times of destitution.

<sup>24</sup> The purpose of this project is that customers who are interested in the issue of poverty in the world, but do not know how to take action, can utilize an approach to helping children by making deposits to Kinki Rokin Bank.

<sup>25</sup> About 2.9 million were female members representing 30% of all union members.

<sup>26</sup> The total workforce in Japan is approximately 51.6 million. Subtracting the number of the total union members and the Rokin banks’ individual members from the total workforce, there are roughly 41.4 million employees regardless of their employment status, who are currently not the constituents of Rokin banks. (51.6 million – (10 million + 0.1 million)=41.4 million)



The Labor Bank Law, which gave Rokin banks the foundation for its spirited dedication to workers for 60 years, is now encountering a necessities for amendments as to better respond to workers' and the public's needs in the current social and economic climate. As discussed above, Rokin banks' program to financially support NPOs is an initiative based upon the idea of creating socio-economic safety nets and enhancing community-based welfare for the challenged and aging population. After 10 years, however this once recognized novel program now faces concerns. Since Rokin banks' members are limited to the rules and regulations stipulated in Japan's Labor Bank Law, they technically cannot offer loans to cooperative business associations. Although cooperative business associations do not consider profit maximization as their primary objective, making an investment on assets for the benefit of cooperative members is allowed. This makes creates complications for Rokin banks to fulfill their mission in responding to workers' individual needs. Another challenge is related to the categorization of workers under Japanese Labor Law in addition to the Labor Bank Law itself; self-employed workers are counted as employers and not employees, regardless of the size of their business. This hinders Rokin banks' outreach in lending to self-employed workers.

## 4.2 Competition with megabanks

Commercial banks are becoming more aggressive in targeting individual customers for loan lending, especially on housing since banks can anticipate a stable source of profits from the borrower's repayment and collateral. These banks mainly deal with wealthy clients and focus on profit making from individual investment funds and insurance products. The "megabanks" have often their own affiliated Consumer Finance Companies (CFCs), posing yet another challenge to Rokin banks. It has been argued that multiple/excessive debt problems are the individuals' responsibility, however on the other hand, there are many TV commercials hosted by celebrities advertising the convenience of CFC services alluding to positive and easy repayment cycles after receiving quick cash. In fact, an overwhelming percentage of people with multiple/excessive debt problems answered that they had been encouraged by these commercials to get money despite excessive interest rates which have been as high as 29.2% before the effective date of the recent law amendment. These companies also practiced aggressive lending to customers that seemed to neglect conventional notions of repayment capacity based on income until an amendment was made on total loan volume control<sup>27</sup> in 2010.

It would of course be ideal if workers and their families were more careful to avoid the easy quick cash schemes with high interest rates. Indeed many could be practicing better spending habits or taking advantage of more manageable options such as the products offered by Rokin banks. However, people who are on the verge of their own personal financial crisis often do not see other options for different reasons, and as a consequence, resort to risk-taking behavior resulting in delinquencies and over-indebtedness. Megabanks and other financial institutions do not take risks to offer loans to customers with multiple debts. Then people would go to the megabanks' affiliated CFCs where loan regulations are less strict compared to other banks but with higher interest rates.

<sup>27</sup> Lenders are not allowed to offer a new loan service to applicants who have an outstanding loan balance that is more than 1/3 of their annual income.

### **4.3 Challenges in the Rokin banks' path to the nationwide merger**

Originally Rokin banks were envisioned to be set up regionally in each prefecture. Subsequent developments resulted in a movement towards the consolidation of Rokin banks into one entity, Japan Rokin Bank. According to Rokin banks' authorities, the idea of Rokin bank serving as a single nationwide entity had been considered from the very beginning, but for various reasons, the banks went on to be founded at the prefecture level. In the course of a few decades of continued discussions with the Ministry of Labor and the FSA, 42 Rokin banks were consolidated into 8 cross-prefectural, yet regional entities between 1998 and 2003. Currently, the remaining five are still based on their individual prefectures.

For better services to workers nationwide, Rokin banks believe that the nationwide merge is essential as to become a financial institution with the capacity to support more union activities and enhance workers' lives. The merger would also resolve various issues stemming from regional services and products which arise in cases involving a workers' relocation. According to the newspaper<sup>28</sup>, Rokin banks' nationwide merger plan was postponed from April 2012 to after January 2014 when they are scheduled to revamp their entire computer system<sup>29</sup>. The postponement was due to the FSA's concerns regarding the future image of the bank after the merge. The nationwide merge had not been envisioned at the time of Labor Bank Law's establishment, so there is also a need for a revision of the law. Rokin banks are financially powerful institutions ranking the 12<sup>th</sup> largest in Japan if counted as a singular entity<sup>30</sup>. However, if they do not remain focused on their original mission as banks for workers, the nationwide merge might result in the creation of another megabank which differs little from other existing banks created through M&As, and they may succumb to the unsuccessful outcome of labor banks found outside of Japan. To avoid this potential major problem, it is vital that they maintain their underlying structure as a cooperative and stay true to their identity. Rokin bank is determined to continue these discussions with the government and seek a way to better serve as a social finance institution through the anticipated nationwide merge.

## **5. Opportunities: Mutual aid is key**

Rokin banks have always stood by workers, supporting them throughout their lives, and relied on each other based on mutual support. Rokin banks remain committed to the value of mutual aid gained through the persistent efforts made by their member organizations and individual workers. They do more than just offering basic loan services to their customers. They hold consultations on workers' financial problems at no cost together with labor unions' assistance at their customers' worksites. By linking financial services to non-financial services such as counseling, they developed strong expertise which kept them resilient in times of crisis. Mutual support between Rokin banks also played an important role in their survival. If one Rokin bank were to go bankrupt, it would hurt the credibility of the rest of Rokin banks. Their sustained credibility owes to their ceaseless mutual support based on this insurance mechanism. Rokin banks managed to survive crisis situations over six decades through the spirit of mutual cooperation.

<sup>28</sup> The Tokyo Shimbun (newspaper) dated on December 24<sup>th</sup> 2010.

<sup>29</sup> The Rokin banks are in the middle of developing a newly integrated computer network system in order to streamline their business activities for the nationwide merger.

<sup>30</sup> Based on "The Japan Financial News Co., Ltd." (Nikken) Research , as of September 2010

Rokin banks have remained independent social finance institutions since their establishment. Even though they receive a deduction of roughly 10% in tax preferential treatment<sup>31</sup> they nevertheless maintained independence from the government. With sound management illustrated by a high equity ratio of 11.15% and long track record as a social finance institution working in the public's interests, Rokin banks were requested by the government to support unemployed people with a low interest loan program in 2008<sup>32</sup>. Given the shortcomings of social safety nets for the poor during recent economic crisis, the government in recognition of the banks' important social role consulted and requested it to further expand its contributions to Japanese society as social finance institutions.

With an increasing number of non-regular workers and unemployment figures rising, there is a fast growing need for Rokin banks to expand their outreach. If a mechanism to reduce risks of default for non-regular workers is developed, perhaps with more aid from the government, targeting them as a niche market might be possible and would serve as another good example of social finance businesses. Looking back at their history, Rokin banks were first established at a time when there were no institutions or government agencies offering a support to workers in need. Within the context of a different sociopolitical and economic society from 60 years ago, there are workers with unstable employment status who are suffering for today's survival. Reaching out to these workers would mean being faithful to their founding philosophy, yet it would require a careful assessment of the correct approach to take. One of the challenges is the proposed nationwide merge of Rokin banks aimed at offering better services for workers and at expanding the network of mutual aid by reinforcing their managing capacity. It is hoped that reaching out to the poor and vulnerable workers who are in most need of financial support will be included in the Rokin banks' forthcoming management strategy.

## 6. Conclusions

This report has aimed to introduce the unique mechanisms of Rokin banks, which has withstood economic crisis and existed for more than half a century. The report has also attempted to discover and extract factors and decisive elements for drawing lessons from such an enduring business model for social finance. In the course of interviews and research on Rokin banks, it was surprising to learn that Rokin banks are not better recognized and appreciated as much as they deserve considering the magnitude of the role they have played in Japan. Rokin banks view this low levels of recognition as a serious challenge to overcome. The rise of megabanks and the declining unionization rate have resulted in fewer opportunities for affiliate-based advertisement that thus far has allowed them to cut down on commercial budgets and provide lower interest rates on their loans. From an international perspective, Rokin banks have faithfully served workers in Japan, it merits an examination to see whether this track record can be replicated elsewhere given the risks and opportunities following the global financial crisis.

There is a fast growing need around the world for financial institutions to take on more social responsibilities. Given their 60 years of experience in the field, Rokin banks may serve as inspiration to institutionalize social finance for workers, financial inclusion of the poor and welfare. With the spirit of "Welfare is for all beyond political and ideological boundaries," it would be ideal for Rokin banks to share their experiences and business model with the world.

<sup>31</sup> Other public interest corporations and cooperatives also benefit from 10% less of corporation tax compared to other private companies.

<sup>32</sup> Employment Security Fund Loan Program and Training and Life Support Fund Loan

This could be achieved through the upcoming ILO Asia and the Pacific Regional Meeting of 2011.

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## Appendix

A case of Suzuki Union - examples of handouts with information on consulting services and awareness-raising campaigns on multiple/excessive debt problems. (Translated by the author)

An activity conducted by the Takatsuka branch

We distribute leaflets on consultation services

for members of our union every day



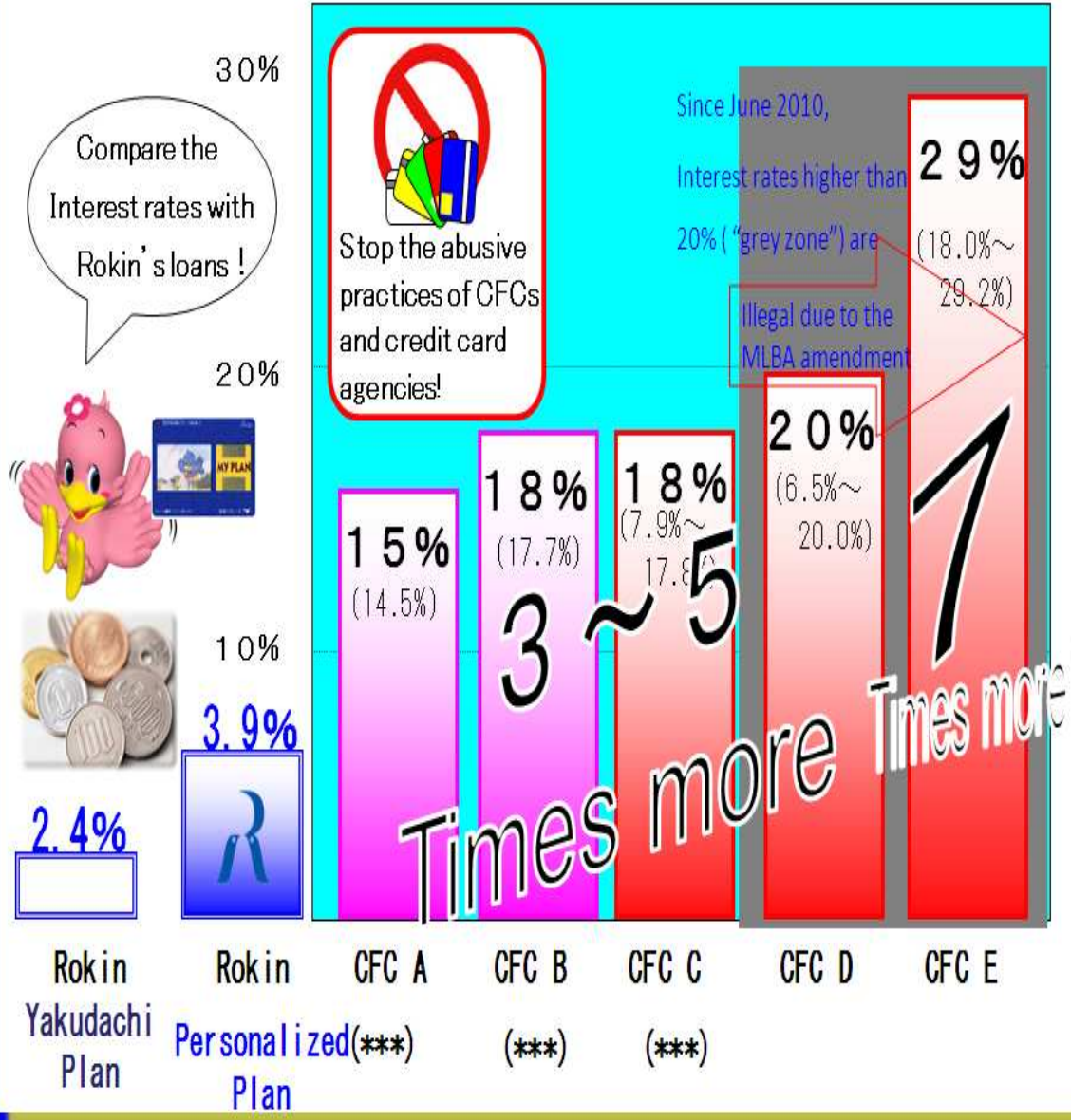
*Distributing  
Leaflets at the  
Canteens*

Consultations on revisiting repayment plans  
and insurance coverage



# Awareness-Raising Campaign on multiple/excessive debt problems

As of Oct. 14<sup>th</sup> 2009



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