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**Rokin Banks: 70 years of efforts to build an inclusive society in Japan through enhancing workers' access to finance**

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## PREFACE

This working paper is the fruit of a continuous collaboration between the National Association of Labour Banks (NALB) and the International Labour Organization (ILO). In 2011, the ILO published a working paper entitled *"Rokin Bank: The story of workers' organizations that successfully promote financial inclusion"*<sup>1</sup> in an attempt to document the experience of Japanese unions and their union-led financial institutions in enhancing workers' access to finance. This initial exercise was in line with the mandate by the ILO's Governing Body to enhance the capacity of workers' and employers' organizations to support financial inclusion, by documenting and sharing experiences about how unions respond to their members' financial service needs.

Last year, the NALB and the ILO agreed to deepen the analysis of the Rokin Bank model and review Rokin Banks' strategies to address the challenges caused by a highly competitive financial sector, a changing labour movement and a changing world of work. The NALB was also interested in exploring Rokin Banks' contribution to the Sustainable Development Goals. This working paper ambitions to provide some insights and analysis on these topics.

Rokin Banks were established in the early 1950s by trade unions and consumer cooperatives to enable their members to access finance at a time workers were excluded from the financial sector. Nearly 70 years later, Rokin Banks form a network of 13 union-led cooperative financial institutions operating all across Japan, they count over 51,000 member organizations which represent 11 million individuals, mostly workers, including low-income workers.

Over the years, Rokin Banks have constantly adapted their services to meet the workers' needs in a fast changing socio-economic environment. While housing loans and savings plans were Rokin Banks' key products in the early decades, the attention then moved to consumption and education loans. More recently, Rokin Banks focused on addressing the consequences of the economic and financial crisis by providing vulnerable workers with loan switches, by offering financial literacy sessions and debt counselling, and by exploring how to best reach out to non-regular workers.

Rokin Banks' capacity to offer responsive financial services to the workers and to avail them at the workplace through the engagement of trade unions explains the longevity of the model. Yet it is not the sole reason. The success is also the result of Rokin Banks being an integral part of a network of public and private organizations that work toward improving the overall workers' wellbeing and more broadly sustainable development in Japan. This last aspect is key considering the changes in the world of work, in particular the increasing number of workers engaged in non-standard forms of employment.

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<sup>1</sup> [http://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/documents/publication/wcms\\_165438.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_165438.pdf)

We do hope that Rokin Banks' unique and rich experience serves as an inspiration for trade unions and financial institutions around the world that wish to enhance inclusive finance for workers and promote sustainable development.

Mr Kimito Nakae  
President  
National Association of Labour  
Banks and The Rokinren Bank

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Director  
ILO Office for Japan

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## ACRONYMS AND ABBREVIATIONS

FSA	Financial Services Agency
HeW Co-op	Japanese Health and Welfare Co-operative Federation
JCCU	Japanese Consumers' Co-operative Union
JWCU	Japan Workers' Co-operative Union
LBA	Labour Bank Act
MHLW	Ministry of Health, Labour and Welfare
NALB	National Association of Labour Banks
NPOs	Non-profit organizations
Rengo	Japanese Trade Union Confederation
Rofukukyo	National Council of Workers' Welfare
Rokin	Labour bank
Rokinren	The Rokinren Bank (National Federation of Labour Banks)
Roshinkyō	Japan Worker's Credit Fund Association
SDGs	Sustainable Development Goals
Shinkin	Credit co-operative bank
SMEs	Small and medium-sized enterprises
Zenjuren	National Federation of Housing Co-operatives
Zenrosai	National Federation of Workers and Consumers Insurance Co-operatives

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## 1. INTRODUCTION

Rokin Banks are unique financial institutions owned and controlled by trade unions and related organizations in Japan. They have been established nearly 70 years ago by trade unions and consumer cooperatives to enable their members to access finance at a time workers were excluded from the financial sector. They have evolved into union-based cooperative financial institutions that provide a wide range of financial products and services to their member organizations and the constituent workers. Over the years, they have constantly adapted to the changing socio-economic environment and the workers' needs (from housing loans and savings plans, consumption and education loans, debt consolidation, to financial literacy and debt counselling and advocacy for adequate financial regulations...). In 2018, Rokin Banks form a network of 13 banks, serving over 51,000 members and 11 million individual indirect constituents, and operating all across Japan through 627 branches.

Being cooperative organizations<sup>2</sup>, Rokin Banks focus on promoting the interests of their member organizations and constituent workers. They have set up a member promotion scheme in which they collaborate very closely with trade unions to raise workers' awareness on their products and services at the workplace and to collect workers' feedback on the same. This scheme has contributed to enhancing member participation and improving the performances of Rokin Banks.

In addition, conscious that access to finance could not address all workers' needs, Rokin Banks are an integral part of a network of public and private organizations that work toward improving the overall workers' wellbeing.

Despite its longevity, Rokin Banks are facing challenges. The shrinking and aging of the population, the increasing poverty and inequalities, the greater number of non-regular and non-unionized workers, the stiffer competition in the financial sector and the advent of fin-tech, the frequent climate-related disasters, are directly impacting its operations and are questioning its capacity to pursue its original mission, which is to serve vulnerable workers. Rokin Banks have already taken initial steps to address these challenges and improve access to finance for less privileged workers in collaboration with unions, other cooperatives and non-profit organizations. Additional efforts are nevertheless needed to upscale the initiatives and tackle efficiently the challenges posed by the changing world of work.

It is not realistic to replicate the Rokin Bank model in other countries due to the different socio-economic environment and the historical path dependence, however Rokin Banks' experience is a true inspiration for trade unions and other organizations around the world that wish to improve their members' access to finance and combat with social exclusion.

This report starts with the brief history of Rokin Banks from its foundation in the early 1950s. Section 3 describes the institutional framework of Rokin Banks. Sections 4 and 5 elaborate on Rokin Banks' organizational structure and business operations. Section 6 highlights the contributions of Rokin Banks to social finance, the United Nations' Sustainable Development Goals and the ILO's Future of Work discussions. The challenges facing Rokin Banks are discussed in section 7. Finally, section 8

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<sup>2</sup> "A cooperative is defined as an "autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise" (ILO, 2002).

presents the major lessons to learn from Rokin Banks' experience and some recommendations to trade unions around the world.

## 2. BRIEF HISTORY OF ROKIN BANKS

### 2.1. ORIGIN OF ROKIN BANKS

The history of Rokin Banks goes back to 1950 but other financial cooperative models were already be in place in Japan, serving mainly small and medium-sized enterprises (SMEs). The Industrial Co-operative Act was enacted in 1900 following German Raiffeisen model to finance farmers who suffered from usurious lending. The Act was amended in 1917 to allow the establishment of urban credit cooperative societies. Then, a separate Urban Credit Co-operative Societies Act was enacted in 1943 to regulate specifically the urban credit cooperative societies and enhance the mobilization of savings under the wartime economy.

After the country's defeat in the World War II in 1945, Japan was in a rush to rebuild its economy, and much of the savings that financial institutions mobilized from clients and members was invested in the nationalized industries and private corporations, leaving none to be lent to workers. Workers and individuals had no recourse but to borrow from loan sharks and pawnshops at high interest rates and had a hard time with interest burdens and harsh collection methods.

It is in this context that consumer cooperatives and trade unions initiated the creation of banks to serve specifically workers and consumers. The Co-operative League of Japan (CLJ) was set up in November 1945 by gathering the pre-war cooperative leaders. In just a few years, CLJ made strenuous efforts to establish the institutional framework for the development of consumer cooperatives, through getting trading licenses for food rationing and wholesaling which had been mostly limited to authorized enterprises, obtaining financial resources and the passing of the Consumer Co-operative Act (enacted in 1948). Despite its campaigning efforts, CLJ did not succeed in having the Act include a provision for consumer cooperatives to engage in credit activities and get access to the public treasury (Trust Fund for fiscal investment and loan). As a result, CLJ approached the trade unions to create jointly workers' banks. On the workers' side, the Trade Union Act of 1945 enabled workers to organize and raise their voice about the challenges that they were facing in this post war period, including hyperinflation and ensuing deflation after the austerity policy, delay in paying wages and massive unemployment. The Confederation of Trade Unions (CTU) started campaigns to establish autonomous workers' insurance and workers' banks in 1949. In its inaugural conference in 1950, the General Council of Trade Unions, as a successor of the CTU, resolved to raise funds for strikes and establish workers' banks.

It was under these circumstances that the Consumer Co-operative Union in Okayama Prefecture and the Confederation of Trade Unions in Hyogo Prefecture made separate calls for establishing banks for workers, leading to the establishment of the first two workers' banks in Okayama and Hyogo prefectures in 1950. Trade unions in other prefectures followed suit under the favourable attitude of local governments' labour offices encouraged by the Ministry of Labour (today's Ministry of Health, Labour and Welfare). On the cooperative side, the financial base of consumer cooperatives was still

building up in the 1950-1965 period and they were not in a position to support the Rokin Banks and use them as their own main banks.

At first, the workers' banks were set up as credit cooperatives in accordance with the Small and Medium-Sized Enterprise Co-operatives Act. By 1951, six workers' banks set up the National Association of Labour Banks (NALB) as a trade association and campaigned for a more appropriate legislation. The Japanese Consumer Co-operative Union (JCCU) as a successor of the CLJ joined the campaign and collaborated in drafting and passing the bill. As a result, the Labour Bank Act (LBA) was enacted in 1953 to be regulated by the Ministry of Labour (later the Ministry of Health, Labour and Welfare) and the Ministry of Finance (later Financial Services Agency).

Following the enactment of the LBA, the credit cooperatives became Rokin Banks. In addition the National Federation of Rokin Banks (Rokinren) was set up as a central bank for Rokin Banks in 1955. By 1966, Rokin Banks were established in all 47 prefectures.

## 2.2. CREATION OF WORKERS' WELFARE ORGANIZATIONS

At the same period, a number of other workers' welfare organizations were established, promoted by trade unions and the cooperative movement. In 1949 the Central Council for Securing Worker's Goods was set up to coordinate industrial union's welfare activities beyond affiliated centrals, promote workers' welfare by activating mutual aid functions and push public policies for establishing social security systems for workers. It was renamed as National Council of Workers' Welfare (Rofukukyo).

Aiming at protecting workers against the risks (old age, poverty, diseases, disability, death, accidents etc.), the predecessor of Rofukukyo resolved to promote the establishment of worker's insurance cooperatives, called Rosai, in 1951. The JCCU proposed the guidelines of cooperative insurance business in 1952. Trade unions then started to organize Rosai and the first Rosai for fire insurance was founded in Osaka Prefecture in 1954. In the formative period, Rosai had to overcome difficulties caused by big fires when they had not yet accumulated necessary funds to make the payment of the insurance claims to victims. Such events made apparent the need to have a larger pool of resources against risks and led to the creation of the National Federation of Rosai (Rosairen) as a reinsurance agent in 1957. Rosairen accelerated the formation of Rosai in each prefecture in 1964 except for Okinawa which was still under the US rule and where Rosai was set up in 1971 to complete the nationwide deployment. Rosairen was then composed of 40 prefectural Rosai and was renamed to Zenrosai in 1976.

Rokin Banks started lending for workers' housing in the 1950s and created the Workers' Housing Foundation in 1958. In parallel, the cooperative movement encouraged the setup of housing cooperatives based on the Consumer Co-operative Act and following the ILO's recommendation on workers' housing (1961). The National Federation of Housing Co-operatives (Zenjuren) was established in 1969. However these housing cooperatives had to reduce their activities due to the volatile land price. In 1971 the Government enacted the Worker's Property Accumulation Promotion Act. Based on the West German model, the Act intended to help workers build assets (Zaikei) through savings for general purpose, pension and housing deducted from wages and deposited onto workers' personal account. The accounts were tax-exempt up to ¥5.5 million. Rokin Banks and Rofukukyo strongly

advocated for improvements in the scheme. When some of their requests were incorporated, Rokin Banks decided to promote the scheme by starting a nationwide product named “Rainbow Saving” in 1972. As a result Rokin Banks became the most successful promoters of Zaikei saving in the country.

In addition, the Japan Worker's Credit Fund Association (Roshinkyo) was set up as a public corporation in 1980 to enable Rokin Banks to avail housing loans to non-unionized workers. The guarantee mechanism later expanded its function to both unionized and non-unionized workers. It now provides guarantee for all Rokin Banks' housing loans.

### 2.3. LIBERALIZATION OF THE FINANCIAL INDUSTRY AND ROKIN BANKS' CONSOLIDATION

Since the 1980s, the Japanese government pursued the liberalization of the financial industry and the internationalization of Japanese Yen to meet the globalization and deregulation trend. The Banking Act drastically amended in 1981 allowed domestic banks to expand the scope of businesses including securities business and introduced provisions for foreign banks' branches and companies incorporated abroad. It resulted in the stiffer competition in the financial market. The BIS<sup>3</sup> regulations on capital adequacy ratio (Basel I) was applied since 1988. Under such circumstances, the Financial System Research Council of the Ministry of Finance published a report on cooperative financial institutions that recognized the cooperative structure and specialty as their *raison d'être* in 1989. The large-scale reform of the financial system called Japan-style “big bang” was introduced to shift from traditional finance ministry-led “convoy system” to pro-competition system based on “free, fair and global principles” since 1996. However the financial crisis in Japan led major banks and securities firms to bankrupt in 1997-1998. During this tormented period, Rokin Banks managed to maintain a healthy financial position as they did not engage in speculative lending.

Rokin Banks formulated a policy “Rokin's Reform towards the 21st Century and its Vision” in 1996 proposing to carry out five main tasks: strengthen relationship with trade unions through a member promotion scheme, develop timely products and services to meet diversified workers' needs, develop professional human resources, install new management information systems and consolidate Rokin Banks to reach an economy of scale. In the meantime, Rokin Banks invested in the modernization of banking infrastructure by joining the Data Telecommunication System of All Banks in 1984, installing ATM systems in 1985, joining the MICS (Multi Integrated Cash Service) in 1990, and starting the internet banking in 2001. Rokin Banks also carried out mergers to establish the following eight regional banks:

- Kinki Rokin Bank in 1998 (Osaka, Kansai, Kyoto, Hyogo, Shiga, Nara, Wakayama)
- Tokai Rokin Bank in 2000 (Aichi, Mie Gifu)
- Chuo Rokin Bank in 2001 (Gunma, Tochigi, Ibaraki, Saitama, Chiba, Tokyo, Kanagawa, Yamanashi)
- Shikoku Rokin Bank in 2001 (Kagawa, Ehime, Tokushima, Kochi)
- Kyushu Rokin Bank in 2001 (Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, Kagoshima)
- Hokuriku Rokin Bank in 2001 (Ishikawa, Toyama, Fukui)

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<sup>3</sup> Bank for International Settlements

- Tohoku Rokin Bank in 2003 (Aomori, Iwate, Akita, Yamagata, Miyagi, Fukushima)
- Chugoku Rokin Bank in 2003 (San-in, Okayama, Hiroshima, Yamaguchi)

Rokin Banks in Hokkaido, Niigata, Nagano, Shizuoka and Okinawa remained independent, bringing the nationwide total from 47 prefectural banks to the current 13 banks (eight regional banks and five prefectural banks). Each Rokin Bank runs as an independent entity however they use the same management information system (MIS), they belong to the same network of ATMs, and they share their data and performances with the NALB and benefit from the central financing facility of Rokinren.

## 2.4. PROMOTING SOCIAL FINANCE

Rokin Banks have been involved in social finance in a variety of fields. When a great earthquake hit Kobe in 1995, millions of volunteers rushed to the devastated area to rescue victims and help rehabilitation. It is later recalled as a volunteer revolution, but they lacked institutional and organizational support to continue their activities. Therefore, the Act on Promotion of Specified Non-profit Activities was enacted with unanimous votes from all political parties in 1998. Then, non-profit organizations (NPOs) mushroomed to reach 50,000, but due their small size, they faced challenges in accessing loans from commercial banks. After careful preparations and based on the government instruction, Tokyo Rokin Bank, Gunma Rokin Bank (later on merged into Chuo Rokin bank) and Kinki Rokin Bank pioneered in financing NPOs in 2000 to support their development.

In the lingering recession since the 1990s, the non-regular employment has dramatically increased while worker's income has been restrained. The consumer finance and credit card companies made a massive publicity to ease borrowing while a large number of workers fell into over-indebtedness and personal bankruptcy. Rokin Banks had already joined the campaigns against the so-called Sara-Kin (providers of consumer loan for salaried workers) together with consumer organizations in 1983, and they have continued efforts to tackle the issue of loan sharks. They joined the national campaign for eliminating problems connected with the use of credit cards and consumer loans together with Rofukukyo and led to the revised Money Lending Business Act in 2006. Through these activities, Rofukukyo has play a role of catalyst of joint actions creating an ecosystem for workers' welfare.

When the Lehman shock brought the world economy to the brink of global financial meltdown in 2008, Rokin Banks had demonstrated strong resilience since they had not invested in high-risk high-return financial derivatives nor involved in the subprime loans. However, a large number of workers were laid off and lost employment due to the economic downturn. Rokin Banks provided loans to help the unemployed persons to train and find jobs under the government scheme (loan for stabilizing jobs and for supporting job-seekers). When the East Japan Earthquake and Tsunami hit a large part of Tohoku region in 2011, they provided low-interest loans to rehabilitate housing and normalize life. Details on these various financial products will be given in subsequent sections 5 and 6 of this report.

### 3. INSTITUTIONAL FRAMEWORK OF ROKIN BANKS

After the Second World War the uniform Industrial Co-operative Act was replaced by separate cooperative laws that were enacted mainly in line with the industrial policies. There is no general law on cooperatives while more than ten special laws regulate single types of cooperatives. The laws regulating cooperative banking institutions are as follows;

- Agricultural Co-operatives Act (No.132 of November 189, 1947)
- Small and Medium-Sized Enterprise Cooperatives Act (No.181 of June 1, 1949) and Act on Co-operative Banking (No.183 of June 1, 1949)
- Shinkin Bank Act (No.238 of June 15, 1951)
- Labour Bank Act (No.227 of August 17, 1953)

Table 1. Legal framework of banking institutions

	Rokin bank	Agricultural Cooperative	Credit Cooperative	Shinkin bank	Commercial bank
<b>Governing law</b>	Labour Bank Act	Agricultural Co-ops Act	SME Co-ops Act, Act on Co-op's Banking	Shinkin Bank Act	Banking Act
<b>Corporate status</b>	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
<b>Supervisor</b>	Premier (FSA Commissioner) and MHLW Minister	Premier (FSA Commissioner) and Farm Minister	Premier (FSA Commissioner)	Premier (FSA Commissioner)	Premier (FSA Commissioner)
<b>Operating area</b>	Defined by bylaws	Defined by bylaws	Defined by bylaws	Defined by bylaws	Unlimited
<b>Membership</b>	Trade unions and other organizations	Farmers, residents	Residents, SMEs	Residents, SMEs	No membership
<b>Deposit</b>	Members in principle*	Members in principle*	Members in principle*	Unlimited	Unlimited
<b>Loan</b>	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.

The Labour Bank Act (LBA) is an organization law specified to the Rokin Banks. Its purpose is "to establish the Rokin Bank's institution jointly organized by trade unions, consumer cooperatives and

other related workers' organizations, and facilitate smooth financing for welfare and mutual aid activities conducted by these organizations, thereby to promote Rokin Bank's sound development and contribute to the workers' enhanced economic position." The LBA provides for principles of not-for-profit purpose, direct service to members and political neutrality. The law stipulates that the Rokin Banks operate with licenses issued by the Financial Service Agency (FSA) Commissioner and the MHLW Minister; their membership consists mainly of workers' organizations. Individual workers can become members, but they don't have voting rights. In addition, the Rokin Banks are set up in each prefecture and can merge with other Rokin Banks pending the regulators' approval. They can form federations. Rokin Banks distribute surpluses based on share (dividend) or trade (patronage refund) in accordance with the provisions set by their bylaws including that of maximum rate of dividend. The governance structure of each Rokin Bank is made up of the general assembly, the board of directors and auditors. Rokin Banks are subject to external audits.

The LBA enlists the banking activities that Rokin Banks can conduct: accepting members' deposit, availing loans to members and discounting drafts for members. Thus, it provides that banking activities are carried out to serve members in principle, however individuals belonging to them (including workers, consumers, etc.) can access the financial services as indirect constituents. It also allows some non-members (public interest corporations, social welfare corporations, etc.) to use the services up to 20 per cent of Rokin Banks' total deposits/loans. Apart from these organization-specific regulations, the general business law for financial institutions is applied to Rokin Banks. In fact, a large number of provisions in the Banking Act, the Financial Instruments and Exchange Act, the Insurance Business Act etc. shall apply to the Labour Bank Act. It is also to be noted that exemptions or specific provisions for cooperative organizations such as the Rokin Banks are included in at least two business laws. For example, the Anti-Monopoly Act does not apply to cooperatives (Article 22 on Exemptions) and the Corporation Tax Act provides for different tax rates in accordance with corporation's status. Cooperatives are taxed at lower rate as compared to conventional business organizations although the difference in rates has been being reduced from 12.3 per cent to 4.4 per cent during 1984-2016 period. Rokin Banks are subject to the supervision by the Financial Service Agency (FSA) for the banking business-related matters the MHLW for organization-related matters.



## 4. ROKIN BANKS' PHILOSOPHY, PURPOSE AND ORGANIZATIONAL STRUCTURE

### 4.1. ROKIN BANKS' PHILOSOPHY AND PURPOSE

In 1997, Rokin Banks revisited its original philosophy to take into account the changing environment and prepare for the entry into the 21st century.

*Rokin Banks aims to promote members' economic welfare, environmental and cultural activities, and to contribute to creating a society in which all people can live together in happiness.*

By providing high quality financial services to its members, strengthening members' ties, developing its activities in communities and connecting people in their communities, Rokin Banks thrive to become the most trusted, and the most accessible financial institution that cares for the workers' welfare.

### 4.2. ROKIN BANKS' ORGANIZATIONAL STRUCTURE

The Rokin Bank group consists of 13 prefectural/regional Rokin Banks, Rokinren as a central bank and NALB as a trade association. As of the end of March 2018, Rokin Banks across Japan have a total of 627 branches. Rokin Banks are organizations owned by trade unions, consumer cooperatives and other worker-related organizations. Members of workers' unions and consumer cooperatives are seen as indirect constituents. Such a structure is different from other cooperative financial institutions that are constituted by individuals (residents, SME owners, farmers etc.) as described in Table 1. The term *dantaishugi* is often used to describe the characteristics that Rokin Banks are owned and controlled by organizations (*danta*). However, 99.5 per cent of Rokin Banks' financial services target individual workers and consumers as against 0.5 per cent target cooperatives, public institutions, non-profits, etc.

Figure 1. Organizational structure of Rokin Banks<sup>4</sup>



<sup>4</sup> Data is as of March 2018

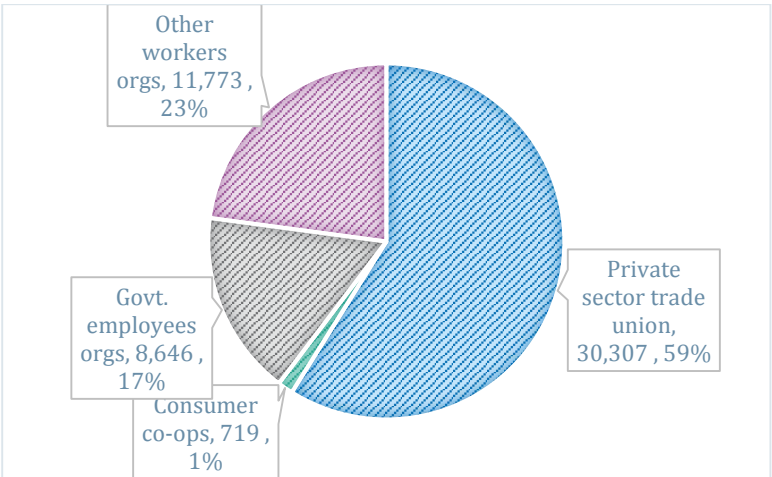
The membership of Rokin Banks is composed of four categories:

- private sector trade unions
- consumer cooperatives and their federations
- government employees' organizations and their federations
- other workers' organizations and their federations

Trade unions may be incorporated or un-incorporated and can be independent or affiliated with different national centres of trade unions. Consumer cooperatives should be incorporated and registered as such. Government employees' organizations include trade unions, health insurance societies, mutual aid societies and their federations. Other workers' organizations aim to improve workers' economic position through welfare activities and should be composed of workers as a majority of constituents. They include *kyosaikai* or *gojokai* (mutual aid groups) for SME employees, and *tomonokai* (friends of Rokin) for retired union members. In addition to these four categories of member organization, individual workers whose residence or workplaces are located in Rokin Banks' operating area can be individual members without a voting right.

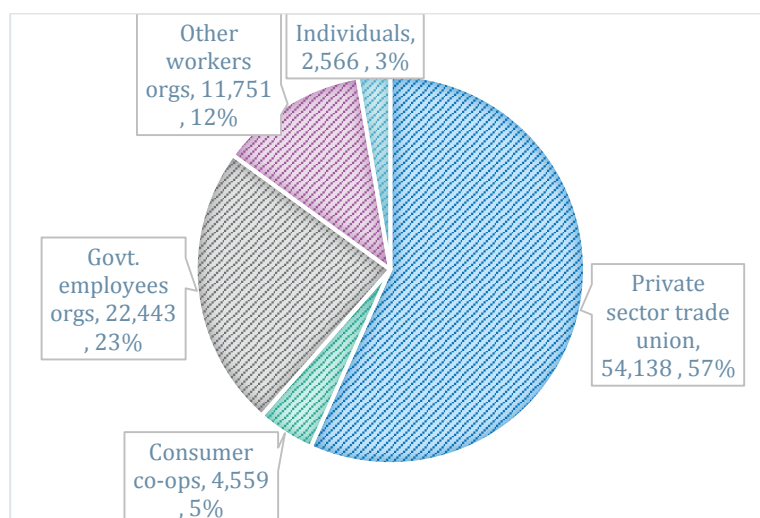
The composition of membership and share investment are shown in Figures 2 and 3. Trade unions in the private sector constitute 59 per cent of the membership. Other workers' organizations have been increasing their representation with 23 per cent as of 2018. Government employees' organizations and consumer cooperatives represent only 17 and one per cent respectively. The share investment also demonstrates the private sector trade unions' dominance (57 per cent) while consumer cooperatives and other workers' organizations represent five and 12 per cent respectively.

Figure 2. Composition of membership



\*The individual members are not included in this graph.

Figure 3. Composition of share investment (¥ million)



The governance structure of Rokin Banks is made up of the general assembly, board of directors and auditors. The delegates nominated by member organizations based on the Cooperative Principle “one member one vote” make decisions at the annual general assembly meeting, which includes deciding on basic policy and financial plan, and electing board members and auditors. The board of directors is composed of member representatives and non-members (executive directors and non-executive professionals). Member representatives are elected from mainly majority unions affiliated with the Japanese Confederation of Trade Union (Rengo). In the case of Chuo Rokin Bank, due to historical reasons, board members include representatives of non-Rengo unions and Japanese Consumers Co-operative Union (JCCU).

The central bodies are organized at the national level to support the 13 Rokin Banks based on the subsidiarity principle. As seen before, based on the Labour Bank Act, Rokinren is registered as a national federation while the NALB is registered as a general incorporated association. Rokinren is the wholesale bank to support retail banking of 13 Rokin Banks. Its main role is to adjust the demand and supply of funds, make fund management, provide centralized data processing for all Rokin Banks, develop and manage a unified online system, etc. It provides a safety net for all Rokin Banks by building a mutual support system and offers support for Rokin Banks’ business operations. NALB’s main role is to develop overall policies of Rokin Bank’s business and provide management support to the 13 Rokin Banks. The NALB carries out the financial monitoring of Rokin Banks, public relations, legal advice, research and development, and support to internal auditors. Additionally, representing Rokin Banks as cooperative financial institutions, it engages in strengthening ties and collaboration with other cooperatives both domestically (Japanese Co-operative Alliance (JCA) and internationally (International Cooperative Alliance (ICA).

These central bodies identify the best practices and innovations made at the primary level of bank branches and unions and disseminate them through the whole organization.

### 4.3. TRADE UNIONS AS MAJOR PROMOTERS OF ROKIN BANKS' SERVICES

Based on *dantaishugi* Rokin Banks are owned and controlled by member organizations (*danta*), in particular trade unions that have a dominant share in both membership and share investment. Although trade unions control a majority of share investment in Rokin Banks, their usage of the financial services is very limited in comparison with that of indirect constituents.

Rokin Banks collaborate with trade unions in a number of ways: joint campaigns for better working conditions and decent work, advancing social protection and security for all workers and reducing poverty and social exclusion. The most important collaboration is however related to the promotion of the Rokin Banks' services. Rokin Banks have developed a member promotion scheme (*Suishin Kiko*), 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. Rokin Banks set meeting agenda and premises, provide information on the Rokin Banks products and services, while promoters express workers' views and requests to improve services or develop new products. Promoters work as volunteers and only receive a small allowance for transportation or snacks. At the branch level the promoters take part in the local promotion committee, and elect representatives at the prefectural level. Those elected representatives take part in the regional promotion committee. This mechanism is run in autonomous ways under the Rokin Banks' guidance. Rokin Banks' board make decisions respecting voices expressed by the workers and report how it responds to them. Table 2 below presents the structure of the member promotion scheme of Chuo Rokin Bank.

Table 2. Structure of promotion scheme (Case of Chuo Rokin Bank)

Level	Promotion Committee or General Meeting	Frequency of meeting	Composition, election to upper level
Regional	Promotion Committee General Meeting	Triennial Annual	Composed of 31 members
Prefectural	Promotion Committee	Triennial	Election to upper level
Branch	Promotion Committee	Quarterly	Election to upper level
	General Meeting	Biannual	Election of delegates to Bank's General Meeting
Union	Promotion Committee		Reflect workers' voice

This member promotion scheme has contributed to retaining and strengthening close ties between Rokin Banks and unions. It has given Rokin Banks a direct access to workers by which they can listen to workers' voices, improve or develop new products and services, and offer them at the workplace, which is convenient to the workers. In other words, the member promotion scheme has helped Rokin

Banks to expand their banking operations, strengthen the democratic control of their structure and contribute to the development of worker's welfare movement.

**Case 1. Shibuya Ward Office Workers Union – The successful member promotion scheme**

Shibuya ward is a municipality in metropolitan Tokyo, with the population of 226,000. Shibuya ward office workers union (hereafter abbreviated as Shibuya Union) made an open-shop contract with the mayor, 98 per cent of regular workers (1,821 members) have joined the union. Shibuya Union is also a member of Chuo Rokin Bank. According to the vice chairperson of the union, around 60 per cent of union members saves through Zaikei. The biggest reason for using Rokin Bank products is convenience. Workers usually face difficulties to visit a bank office during weekday opening hours. Rokin Bank offers banking services at the workplace. Rokin Bank staff stands by at the union office three to four days a week and workers can consult and proceed formal procedures (such as withdrawing cash and repaying loan). The major role of the union in facilitating its members' access to the Rokin Bank's services is advertisement. The union organizes the "Promotion committee of Rokin Bank and Zenrosai", which consists of volunteer union members. The committee members, working with Rokin Bank staff, introduce the Rokin Bank's products to their colleagues by distributing flyers.

The secretary-general of the union recognizes that the partnership with Rokin bank is also positive for the union because Rokin Bank's attractive products encourage workers to join the union.

*Chuo Rokin Bank staff and Promotion committee member visit union members' workplace to explain the bank's products*



**4.4. ACTIVE MEMBER OF A NETWORK OF WORKERS' WELFARE ORGANIZATIONS**

As seen in a previous section, Rofukukyo (National Council of Workers' Welfare) is a network bridging workers' welfare organizations and trade unions aiming to promote workers' welfare through mutual help in relation to state welfare and company-led welfare. The state welfare is provided to all people through social security system financed by tax and social insurance fees while company-led welfare was provided by larger companies to retain employees through offering a variety of fringe benefits. Rofukukyo pursued to create worker's welfare, by workers and for workers, requesting to enlarge state welfare while questioning company-led welfare.

Rofukukyo is composed of workers’ welfare organizations including Rokin Banks, insurance cooperatives, consumer cooperatives, health/welfare cooperatives, housing cooperatives, worker cooperatives and trade unions (Rengo and non-Rengo unions). These organizations join the Rofukukyo network at national, prefectural and local levels (table 3).

**Table 3. Rofukukyo network bridging workers’ welfare organizations and trade unions**

Level	Workers’ welfare organizations	Rofukukyo	Trade unions
National	NALB, Zenrosai, JCCU, HeW, Zenjuren, etc	Central Rofukukyo	Rengo, Industrial federations
Prefectural	Prefectural unions etc.	Prefectural Rofukukyo	Prefectural Rengo
Local	Primary cooperatives, etc.	Local Rofukukyo	Local councils, unions

Rofukukyo has the following functions;

- Coordination of affiliated organizations to combat with social exclusion
- Policy advocacy related to workers’ welfare
- Running “Life Support Centres” as one-stop consultation hubs
- Promotion of collaboration among workers’ welfare organizations
- Provision of education and training for union/cooperative leaders and organization of national conferences to share experience
- Public relations through monthly newsletters and special campaigns

Since its inception, Rokin Banks have been an active member of the Rofukukyo network to advocate for the workers’ rights and protection. Rokin Banks maintained regular consultations with trade unions at local, prefectural and national levels in coordinating policies and activities in the framework of Rofukukyo. They joined campaigns against consumer finance companies’ aggressive drive leading to over indebtedness and succeeded in amending the Moneylending Control Act to lower the maximum interest rate in 2006. They joined consumer campaigns to stop the fraudulent marketing practices targeting the elderly and the youth to sell precious goods and succeeded in amending the Instalment Sales Act in 2008. They also took part to a campaign to improve terms of student loans and helped borrowers through refinancing by lower rate loan since 2015. Many of these campaigns have been started by local initiatives but later conducted on a national scale.

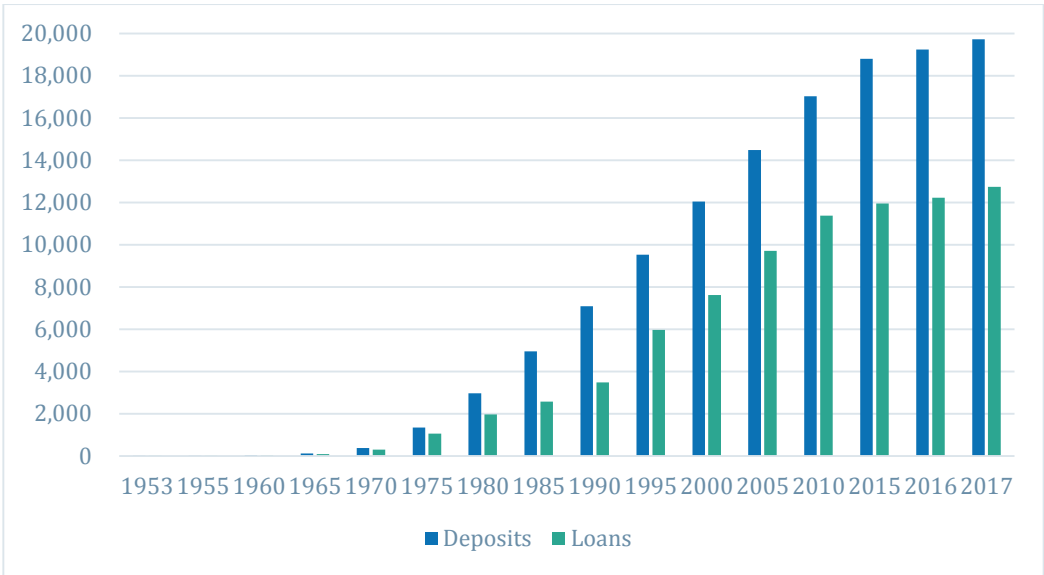
Some Rokin Banks are involved in creating community kitchens for children and actions to implement the Act for Self-support of Needy Persons of 2013. Trade unions joined and played an important role in disseminating campaigns. Rokin Banks are often playing pivotal role to promote such actions in personnel and financial terms.

## 5. ROKIN BANKS' PRODUCTS, SERVICES AND FINANCIAL PERFORMANCES

### 5.1. PRODUCTS AND SERVICES OFFERED AND IMPACT ON MEMBERS AND WORKERS

This section focuses on major features of financial products and services offered by Rokin Banks and how these products and services have made positive impacts on member trade unions and workers. In terms of deposit products, most of deposits are time and savings deposits. Rokin Banks aggregately have ¥14 trillion/US\$127 billion of time deposits, which represents 71 per cent of all deposit outstanding (¥19.7 trillion/US\$179 billion; as of the end of March 2018, Fig. 4). This large share of time deposits is explained by Rokin Banks' success in promoting the Zaikei savings product in close collaboration with trade unions. As noted earlier, the Zaikei product enables workers to direct part of their wages automatically into a savings account in order to facilitate asset building.

Figure 4. Rokin Banks' deposit and loan outstanding



Source: domestic record provided by National Association of Labour Banks

When Zaikei was launched, the key advantage was the tax free element on income generated on savings. Nowadays the remuneration rates on savings are very low, however the Zaikei savings product remains attractive to workers because it encourages savings discipline and it is easy to use. When a worker wants to use Zaikei, his/her trade union signs a contract with the employer to enable automatic savings deduction from his/her salary. If the worker is not unionized, he/she has to request the employer to introduce automatic savings deduction from the salary. Given this, Zaikei is easier to use for unionized workers than non-unionized workers. Regular workers employed by large companies are more likely to be unionized and have therefore an easier access to advantageous service such as Zaikei. Recently, Rofukukyo advocated for the government to improve Zaikei in order to make it easily accessible to non-regular workers too (Rofukukyo, "FY2018 Policy Requests").

Most of the loans availed by Rokin Banks are housing mortgages for individuals. All Rokin Banks had ¥10 trillion/US\$97 billion of outstanding housing loans in 2016, representing 87.6 per cent of the

total outstanding loans (¥12 trillion/US\$111 billion). Other loans include living expense loans for individuals (10.2 per cent) and organization loans for trade unions, cooperatives or non-profit organizations (2.2 per cent) (Table 4). While housing loans are secured with mortgages, living expense loans are unsecured and used for multiple purposes such as car purchase, education, house furniture or renovations. Additionally, Rokin Banks provide bank card loans. Bank card loans allow bank card holders to borrow small amounts of money without collateral and directly from the ATM. It is different from credit card services.

**Table 4. Loan products for organizations and for individuals**

Level	Loan purpose	Details
<b>Organization loan</b>	Wage	Loan to a trade union to maintain workers' income when a company faces temporary difficulties to pay wages to employees or in times of strike.
	Welfare and mutual aid	Loan to a trade union when it builds recreational facilities for union members and it operates mutual aid activities.
	Retail business	Loan to consumers' cooperatives to expand their activities.
	Housing business	Loan to housing cooperatives to expand their activities.
	Social welfare	Loan to non-profit organizations to support their activities.
<b>Individual loan</b>	Living expense	Loan to workers for living expenses (such as car purchase, education, house renovation, and medical care) without collateral.
	Card loan	Loan to workers for living expenses through bank card without collateral.
	Housing	Loan to workers for purchasing house (mortgage).

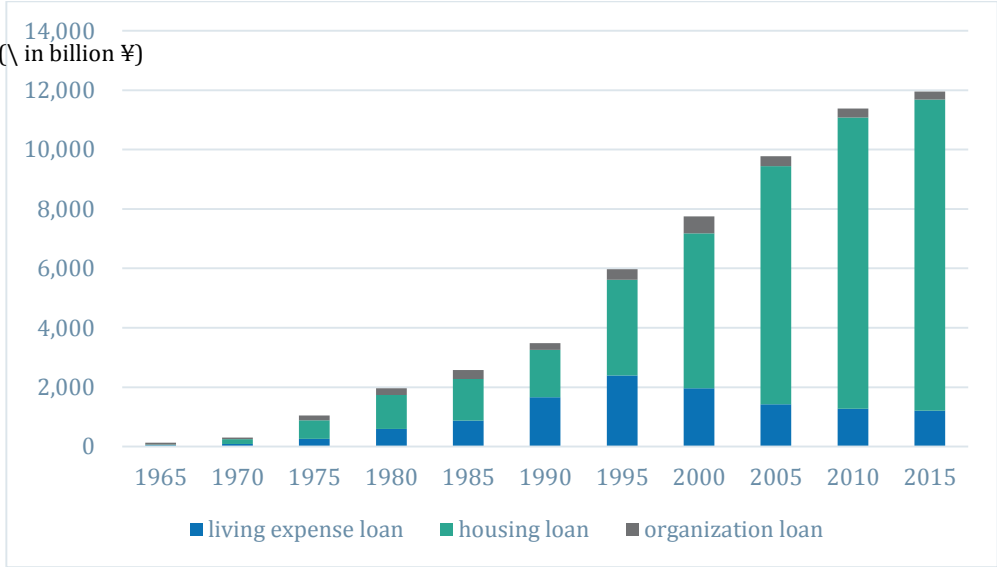
Rokin Banks' loan portfolio has evolved greatly overtime. In the 1950s and 1960s, Rokin Banks used to lend mainly to trade unions and consumers' cooperatives. Trade unions had a number of severe strikes in the 1950s to the 1960s and had to borrow to maintain workers' income. Trade unions also borrowed to build recreational facilities (such as guesthouses and hotels) for workers. At that time, commercial banks only lent big amounts to large companies, excluding de facto consumers' cooperatives that were then small-sized and small firms. Rokin Banks availed loans to consumers' cooperatives to develop their activities. Trade unions at small firms borrowed from Rokin Banks to maintain workers' wages when employers experienced shortage in cash. Rokin Banks lent around half (47.9 per cent) of its total loan portfolio to member organizations in 1965. Through high economic



growth period (from 1955 to 1973) workers' living standards improved and their financial needs shifted from living expenses to housing. Trade unions' demand for loans decreased as they rarely had strikes as of the 1970s (Mimura 2014). Consumers' cooperatives also grew to a much larger size and were able to access commercial banks' loans. In the meantime commercial banks widened their targets to cooperatives and small firms from the 1970s. This is in this context that Rokin Banks started to specialize in housing loans for workers (Fig 5).

After the end of high economic growth period, commercial banks began retail banking services, offering housing and living expense loans to individuals. Demand for housing loans shrank due to the recession from the late 1970s. Rokin Banks experienced hard time from the latter half of the 1970s to the 1980s, as their loan-deposit ratio decreased. While the main target customers of housing loans were regular workers, Rokin Banks made a new strategy to offer housing loans to non-unionized workers via the creation of loan centres and mutual aid groups (called "Gojokai") (Muroya 2003). Some Rokin Bank branch offices established loan centres, where one can consult with bank staff on taking a loan. In addition, Rokin Banks organized non-unionized workers who were willing to use Rokin Banks' services into mutual aid groups. Interest rates of housing loans offered by Rokin Banks are not necessarily lower than those by commercial banks. However, Rokin Banks offer other advantageous points: when a borrower wants to repay quicker than originally planned, Rokin Banks willingly accept it without charging fees (Suzuki 2003). As Rokin Banks' staff members often visit trade unions' offices at daytime on weekdays as part of the member promotion scheme, workers feel at ease by face-to-face communication with staff members.

Figure 5. Amount of Rokin Banks' loan by loan type

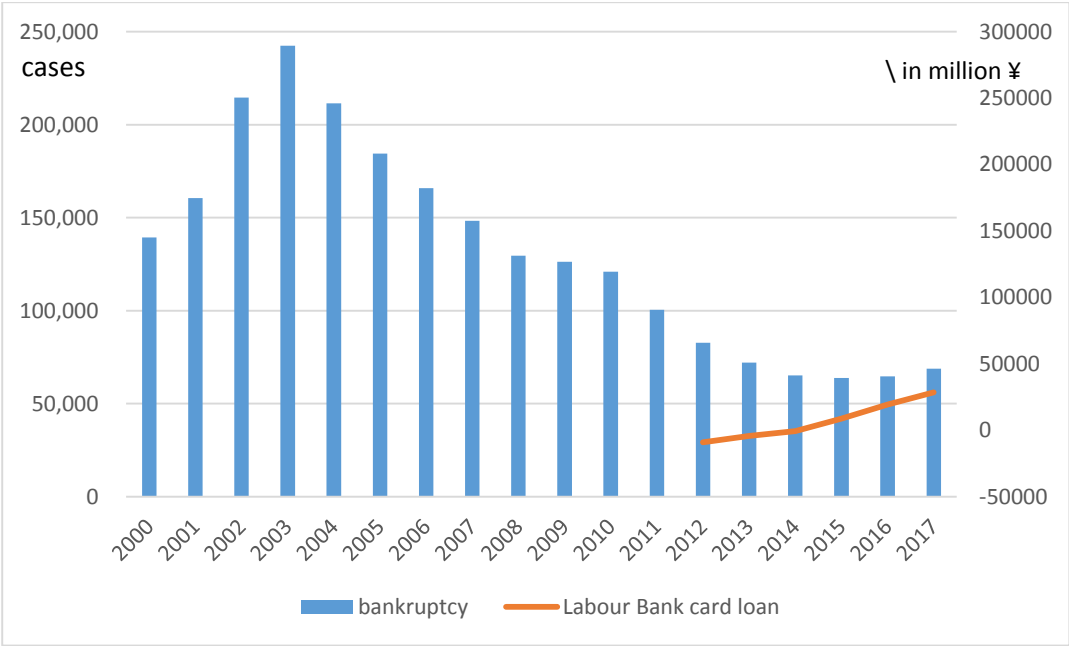


Source: domestic record provided by National Association of Labour Banks

While the share of housing loans in Rokin Banks' portfolio continued to grow over the decades, the share of living expense loans started to decrease in 1995. After the long recession since the 1990s, workers have tended to avoid purchasing cars and young generations have been less likely to own cars than before. Workers also have an easier access to loans from credit card companies, money

lenders and commercial banks than before and do not rely exclusively on Rokin Banks for living expense loans. Moreover, in an attempt to reduce the risk of over-indebtedness for their members, many trade unions set maximum loan amounts that could be taken from Rokin Banks. With these factors, the share of living expense loans at Rokin Banks has shrunk.

Figure 6. Individual bankruptcy cases and Rokin Bank card loan outstanding increment



Rokin Banks also offer the workers to lessen the burden of paying interest by switching their existing loans taken from commercial banks, credit cards companies at higher interest rates (14 to 18 per cent) to the Rokin Banks’ card loan which offers lower interest rates (around seven per cent). A worker who wishes to switch his/her loan needs to apply for a card loan at a Rokin Bank branch office. The Rokin Bank office staff inquires the trade union which the applying worker belongs to whether he/she is really a member of the union. Upon the Rokin Bank’s approval, the applying worker can borrow from the Rokin Bank and then pay back existing loans. Rokin Banks encourage this debt consolidation to “increase workers’ disposable income” and help workers to avoid over-indebtedness. Rokin Banks’ card loan started increasing in selling in 2015, when individual bankruptcies began increasing (Fig. 6).

In recent years Rokin Banks, in particular in Niigata and Nagano prefectures, have taken steps to reach out to non-regular and/or vulnerable workers. In 2014, Niigata Rokin Bank developed a unique loan product, called “Partner”, which targets exclusively non-regular workers and can be used for car purchase and education. Nagano Rokin Bank has developed an unsecured loan product for single parent workers (including non-regular workers).

**Case 2. Dynam Workers Union** – Organizing non-regular workers for an easier access to finance

Dynam Workers Union targets all employees of Dynam corporation, which provides amusement services. The union's strong points are its union-shop contract made with the company and its commitment to organize both regular workers and non-regular workers. Non-regular workers represent around half (48.1 per cent) of the total number of union members (9,202 members; as of September 2018). Most of non-regular workers (87.6 per cent) are women, typically housewives and single mothers. They tend to be employed for many years by Dynam. Dynam Union is a member of Chuo Rokin Bank and invests shares in the bank every year in line with Rokin Bank membership requirements. In total Dynam Union has invested more than ¥1.8 million. According to the chairperson of the union, more than half of the union members use Chuo Rokin Bank services in particular housing or car loans, and the Zaikei deposit services. Non-regular workers tend to use the Zaikei deposit services.

The incentive for Dynam workers to use Chuo Rokin Bank's services is not the advantageous interest rates but rather the "human-touch" relationship between union leaders, workers and Chuo Rokin Bank staff. Dynam union has created a positive atmosphere that enables workers at each workplace level to consult with union leaders about their financial goals and problems such as buying a new car, looking for a loan, facing challenges to repay debts. Financial literacy seminars for the union leaders also have an effect of shoring up demand for Rokin Bank products.



*Financial literacy seminar for union leaders  
at Dynam Workers Union Tokyo branch office*

### Case 3. *Seikatsu Club Consumers' Co-operative Tokyo* – Reaching out to cooperatives

After World War II, many consumers' cooperatives were founded by trade unions and local Rofukukyo to support low-income workers. Due to poor management, most of them failed to survive and disappeared in the 1960s. At around the same time, young mothers started a new consumers' cooperative movement in their local communities to purchase healthy food at reasonable price. These consumers' cooperatives rapidly grew up during the 1970s and the 1980s, and became a large social movement sector advocating for food safety, consumer rights, environmental protection, peace, international solidarity and women empowerment. Because of this different origins, these consumers' cooperatives have weak ties with trade unions and Rokin Banks – they represent only one percent of total Rokin Bank members (Fig. 2).

Seikatsu Club Consumers' Cooperative Tokyo (hereafter abbreviated as Seikatsu Club) is one of such consumers' cooperatives.

It was founded in 1968 and now brings together 82,714 individual members, the majority of whom are women with children. The services provided by the Seikatsu Club include healthy food and useful commodities delivery, child and elderly care and cooking classes. Compared with the other consumers' cooperatives, Seikatsu Club has kept a relatively close relation with the Rokin banks because one of its founders was a trade union activist. Seikatsu Club borrowed a large amount from Chuo Rokin Bank to construct its first warehouse only two years after its foundation and borrowed again to construct a new head office building ten years ago.

Even though Seikatsu Club does not need to borrow from the Rokin Bank any longer, it still keeps good relationship with Chuo Rokin Bank. For example, Seikatsu Club has long occupied a vice chair of the Promotion committee of Setagaya Branch of Tokyo Rokin Bank (now Chuo Rokin Bank). It also promotes Rokin Bank services among its members through distribution of brochures. In 2018, Seikatsu Club provided its meeting space for Chuo Rokin Bank to hold a few seminars for its cooperatives members on how to build asset using the Rokin Bank's products. Some branches of Chuo Rokin Bank try to outreach cooperatives to sell loan products (such as car loan and card loan).

The case of Seikatsu Club has shown that face-to-face communication and trustful relationship are the key for Rokin Bank to improve its outreach to individual cooperative members (due to its organization-based membership principle, Rokin Banks are less likely to approach individuals directly).

## 5.2. FINANCIAL PERFORMANCE AND POSITIONING IN THE FINANCIAL MARKET

This section looks at financial performance and positioning of Rokin Banks in the domestic 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 deposit outstanding has kept more than ¥20 trillion since 2019). The average loan-deposit ratio of all Japanese banks at the same time is 65.53 per cent, which is very close to that of the consolidated loan deposit ratio of Rokin Banks, 64.61 per cent.

Rokin Banks' consolidated capital adequacy ratio as of the end of March 2018 is 10.54 per cent, whereas the average ratio of Japanese domestic banks at the same time is 9.86 per cent on a consolidated basis (Table 5). Rokin Banks' consolidated ratio is slightly greater than the average, and much greater than the minimum requirement of four per cent for domestic banks set by Basel III. Rokin Banks' consolidated risk management loan ratio is 0.59 per cent compared to 1.17 per cent, the average of all Japanese banks. The relatively low ratio of risk management loan indicates Rokin Banks have less non-performing loans and thus demonstrates their financial soundness. However, it should be noted that Rokin Banks' major loan product is prime housing mortgage offered to regular workers whereas other banks' major loan product is business loan, that is more likely to be affected by economic volatility. The financial indices show Rokin Banks' robust profitability compared to the average of all Japanese banks (Table 5), but it is not appropriate to make a too simple comparison between Rokin Banks and other banks due to difference on major loan products.

Although Rokin Banks have better performance than the average of all Japanese domestic banks, its profitability has been decreasing year by year. As Rokin Banks are retail banks generating surplus from loan-deposit interest margin, the drop on the interest margin has a negative impact on their financial soundness. Rokin Banks' consolidated yield on loan dropped from 3.6 in 1998 to 1.5 in 2018, and its yield on deposit dropped from 0.5 in 1998 to 0.05 in 2018. As a result, its loan-deposit interest margin also decreased from 1.5 in 1998 to 0.55 in 2018.

Rokin Banks have competed with other banks to attract members by lowering housing loan interest rates for decades. In addition, in 2016 Bank of Japan introduced negative interest rates policy, which deteriorates banks' earning capacity. Banks deposit excess funds at the central bank to earn interest. The central bank controls the amount of cash circulating all around the country by changing interest rate for banks. Japanese central bank introduced negative interest rates policy in order to maximize money supply and to stimulate financial transaction. On the one hand, banks cannot earn interest from their central bank deposit account. On the other hand, banks compete with other banks by offering lower loan interest rates. It is also harder for banks to find fast-growing and quite profitable investees in an aging and depopulating society. That situation deteriorates banks' profitability. Rokin Banks are not exception.

Table 5. Consolidated financial performance of Rokin Banks, as of FY 2017

	Rokin Banks	Average of all domestic banks
Yield on loan	1.50	1.04
Yield on securities	1.14	0.94
Yield on investment	1.15	0.84
Yield on deposit	0.05	0.02
Expense ratio	0.90	0.80
Fundraising cost ratio	0.93	0.76
Loan-deposit interest margin	0.55	0.22
Interest margin for total fund interest rate	0.22	0.08
Capital adequacy ratio	10.54	9.86
Risk management loan ratio	0.59	1.17

Source: Japanese Bankers Association (2018), NALB (2018)

As noted in earlier section, one of the important roles of Rokinren (National Federation of Labour Banks) is to manage fund which is deposited by Rokin Banks. Rokinren earns dividend on securities and interest on loans. Rokinren's securities include government bond (28 per cent), local government bond (19 per cent), domestic corporate debenture (40 per cent), and international corporate debenture (eight per cent) among others (as of the end of March 2018). 60 per cent of Rokinren's total operating income comes from dividend on securities. As dividend and interest rates go down, fund management profit margin keeps being thinner. To address this, Rokinren has promoted greater efficiency by centralizing administrative works and upgrading online back-office centre in 2014. In addition, Rokinren recently also strengthened an in-house fund to help Rokin Banks that face hard situation.

## 6. CONTRIBUTIONS OF ROKIN BANKS TO SOCIAL FINANCE, THE SDGS AND THE FUTURE OF WORK DISCUSSIONS

### 6.1. TACKLING OVER-INDEBTEDNESS

Since its establishment and for the past 70 years, Rokin Banks have aimed at providing workers with alternatives to non-bank money lenders, whose lending practices in particular high interest rates and aggressive debt collection tactics led many workers into over-indebtedness and despair. Over-indebtedness was first discussed at a Rokin Bank national meeting in 1976, while



Demonstrating parade requesting full enforcement of amended Moneylending Control Act and strengthening safety-net lending (March 2009) Photo by Rofukukyo

the government was not willing to act (NALB 1981). In 1978 Rokin Banks had developed their first ever plan to address over-indebtedness. The plan included offering loan switches from high interest loans to Rokin Banks' affordable loans with a simple procedure, rescuing loan shark victims, and advocacy campaign to ask the government to regulate moneylenders. Rokin Banks provided 3,500 workers with ¥11 billion of loan switch in total during three months of their over-indebtedness campaign in 1983 (NALB 2002).

Over-indebtedness issue worsened during recession in the early 1980s, which forced the government to address the issue by amending the Law on Investment Deposits and Interest Rates in 1983: the maximum annual interest rate was reduced from 109.5 per cent to 73 per cent. Rokin Banks have a long history of joining advocacy campaigns asking for reducing maximum interest rates, purging fraudulent businesses and protecting quality of public livelihood assistance, closely working with local Rofukukyo, trade unions, Zenrosai, consumers' cooperatives, and civil society organizations (Otsuka and Aso, 2016).

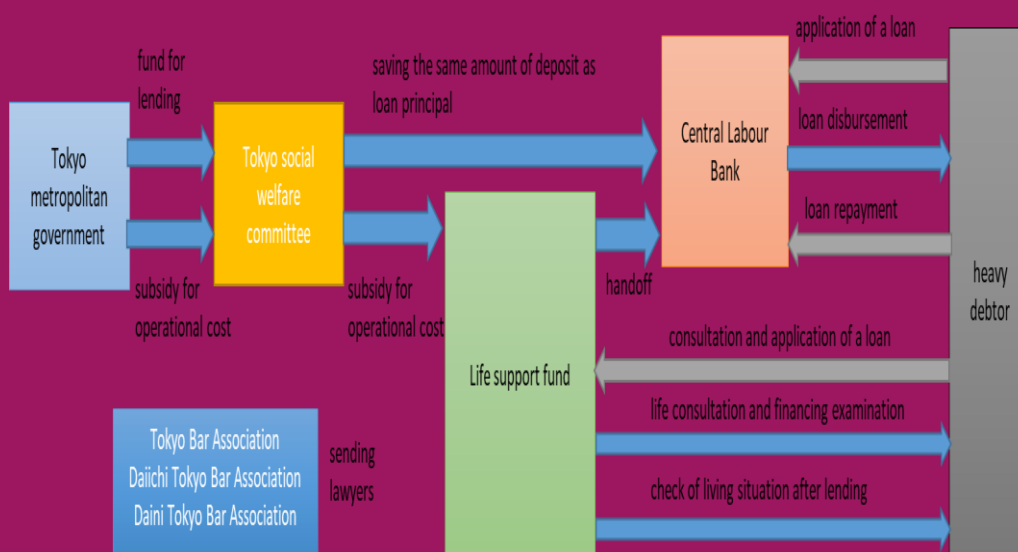
The key success of their advocacy campaigns was the amendment of Moneylending Control Act in 2006. Rokin Banks began a new initiative named "the life support movement" in 2006 to address and prevent over-indebtedness through consultations for heavy debtors. Each Rokin Bank created its own methods to support heavy debtors, but Shizuoka Rokin Bank led the process by opening an office dedicated to support heavy debtors and offering services including one-on-one consultations and low interest loans up to ¥5 million. To promote the initiative among all Rokin Banks, NALB also opened its own help desk in 2007, where two consultants offered consultation with debtors for two years. Another example is the collaboration between Chuo Rokin Bank and the Tokyo metropolitan government for the implementation of the Life Rebuilding Program for heavy debtors in Tokyo (see Case 4). Over the years the Rokin Banks have addressed over-indebtedness through 3 main ways: prevention (by offering affordable financial services, rescheduling loan repayments and switching loans), financial education (with consultations and seminars) and advocacy campaigns for responsible financial practices as part of Rofukukyo.

#### Case 4. Life Rebuilding Program for heavy debtors in Tokyo

The Life Rebuilding Program for heavy debtors in Tokyo is a combination of consultation and loan for heavy debtors. This program was started by Tokyo metropolitan government in 2008. It is a unique multi-stakeholder model (Fig. 7); (1) Tokyo Social Welfare Committee created a public fund given by Tokyo metropolitan government. (2) Life Support Fund, a non-profit association, gives free consultation on debt problem. Life Support Fund is subsidized by Tokyo social welfare council. If appropriate, Life Support Fund recommends Chuo Rokin Bank to provide a rescue loan. (3) Chuo Rokin Bank receives lending capital from Tokyo Social Welfare Committee, reviews loan applications received through Life Support Fund and provides a rescue loan when appropriate. (4) If the borrower fails to make loan repayments, Life Support Fund contacts the borrower to know what problem has occurred and informs Chuo Rokin Bank accordingly. (5) After three failures of timely loan repayments, the credit obligation shifts from Chuo Rokin Bank to Tokyo Social Welfare Council, which start debt collection as a servicer.

The rescue loan is available for people who are in the process or after completion of debt adjustment. Debt adjustment is a legal procedure to reduce debt outstanding if a person is over-indebted and cannot control repayment. There are several levels of debt adjustment depending on debt amount: the most serious choice is bankruptcy. People who completed debt adjustment or debt relief are named on a so-called "black list" and cannot borrow again from formal financial institutions (including Rokin Banks) for 5 or 10 years. That is a heavy sanction for those people who wish to rebuild their lives. The Life Rebuilding Program and its related is a public program led and subsidized by Tokyo metropolitan government, therefore the beneficiaries of the program and users of the rescue loans are not required to become a Rokin Bank member or a Life Support Fund member. The maximum amount of the rescue loan is ¥3 million and the repayment period is within seven years. The annual interest rate is as low as 3.5 per cent. One or more of co-signer(s) is needed. 37 loans totalling ¥73 million have been disbursed during three years (from FY2015 to FY2017).

Flow chart of Life Rebuilding Program for heavy debtors in Tokyo



Source: modified from material by Life Support Fund



## 6.2. SAFETY NET LOANS

Rokin Banks have been one of the leading agents of safety net lending in Japan: during the recession in the late 1990s and the credit crisis in 2008, Rokin Banks willingly accepted rescheduling of loan repayment. In response to strong requests from MHLW, Rokin Banks started two types of special loans for regular and non-regular workers who had lost their jobs: in 2008, a special loan for housing and job search targeting unemployed workers who lost their home as a consequence of being laid off; and in 2009 a special loan for job seekers' training. Although over-indebtedness issue caused by moneylenders has calmed down since 2007, education loan issue became the next hot issue in recent years. Many college students take an education loan to pay entrance fee and tuition, due to the lack of sufficient public education grants/scholarships in Japan. Graduates from college who fail to find a full-time job find it hard to repay their education loan. Kyushu Rokin Bank and Hokkaido Rokin Bank, are working with local Rofukukyo to offer the indebted graduates to switch their existing loan to Rokin Banks' education loans which offer lower interest rates.

Other safety net loans include special loans for people affected by natural disasters. When a big earthquake attacked Kinki region in 1995, seven Rokin Banks in Kinki region provided more than 12,000 emergency loans for a total amount of ¥50 billion (NALB 2002). Moreover, Rokin Banks did not charge fee for donation remittance. In addition, Rokin Banks initiated a specialized deposit product in 1995 which allowed depositors to donate the interests generated from their savings to a non-profit organization that supports orphans who lost their parents in the earthquake. The product enabled Rokin Banks to donate ¥232 million to this non-profit organization. After the East Japan earthquake in 2011, Tohoku Rokin Bank actively supported people affected by the disaster. Tohoku and Chuo Rokin Banks' support included lowering interest rates of ongoing loans (through cash back mechanisms), rescheduling of loan repayments and availing low interest loans as well as emergency/disaster loans. Other Rokin Banks have replicated those products and mechanisms in order to support workers and their families that are increasingly affected by more frequent natural disasters.

Inspired by earlier successful partnerships at local level in Nara and Hokkaido prefectures, JCCU and NALB concluded a nationwide partnership agreement to address emergencies and disasters in June 2015. As reported in an earlier section, the collaboration between consumers' cooperatives and Rokin Banks have not been obvious and there are big regional gaps. There are however several successful cases: Chuo, Kyushu, Hokkaido and Tohoku Rokin Banks collaborated with several cooperatives by opening new bank accounts for donation and accepting donation from cooperative members with no remittance fee when disaster occurred. Consumers' cooperatives asked their members to donate through Rokin Banks' bank accounts. This partnership is important for Rokin Banks because it is the first step to strategically deepen face-to-face trustful relationships with consumers' cooperatives.

### 6.3. LOANS FOR NON-PROFIT ORGANIZATIONS (NPOS)

Initially Rokin Banks were by law prohibited from lending to non-profit organizations. The situation evolved and as of 2000 Rokin Banks were allowed to lend to accredited non-profit corporations engaged in welfare business. Tokyo, Gunma and Kinki Rokin Banks then started to offer “Non-profit business support loans” in April 2000. Rokin Banks were then allowed to lend to any kinds of non-profits in 2003.

Rokin Banks were originally created to provide loans to trade unions, consumers’ cooperatives and workers. Then why did Rokin Banks need to start lending to non-profits in 2000? Is that just another business loan?

Japan had a “non-profit boom” in around 2000, when many people were excited to introduce a new idea of “non-profit organizations” or “NPOs”, which were expected to play a public role in a mixed welfare regime. While many small-sized non-profits were founded and incorporated at that time, these organizations had difficulty in borrowing from commercial banks due to the lack of security. In addition to an insufficient understanding of non-profits by bankers, banks faced a serious credit crisis which shrank lending capacity at that time. Thus, Rokin Banks and Shinkin Banks as well as credit cooperatives decided to lend small amounts to certified non-profit corporations in 2000.

The NALB recognizes that partnering with NPOs that are dedicated to improving living conditions of communities is aligned with Rokin Banks’ new vision of creating a society in which all people can live together in happiness (Hohashi, 2010). Rokin Banks found that supporting non-profits is meaningful to enrich workers’ lives, which may not be attained only by providing financial services directly to workers.

In addition, while Rokin Banks are popular among unionized workers, workers’ family members may not know Rokin Banks. Hence Rokin Banks tried to increase its outreach in local communities by supporting non-profits (Suzuki, 2003).

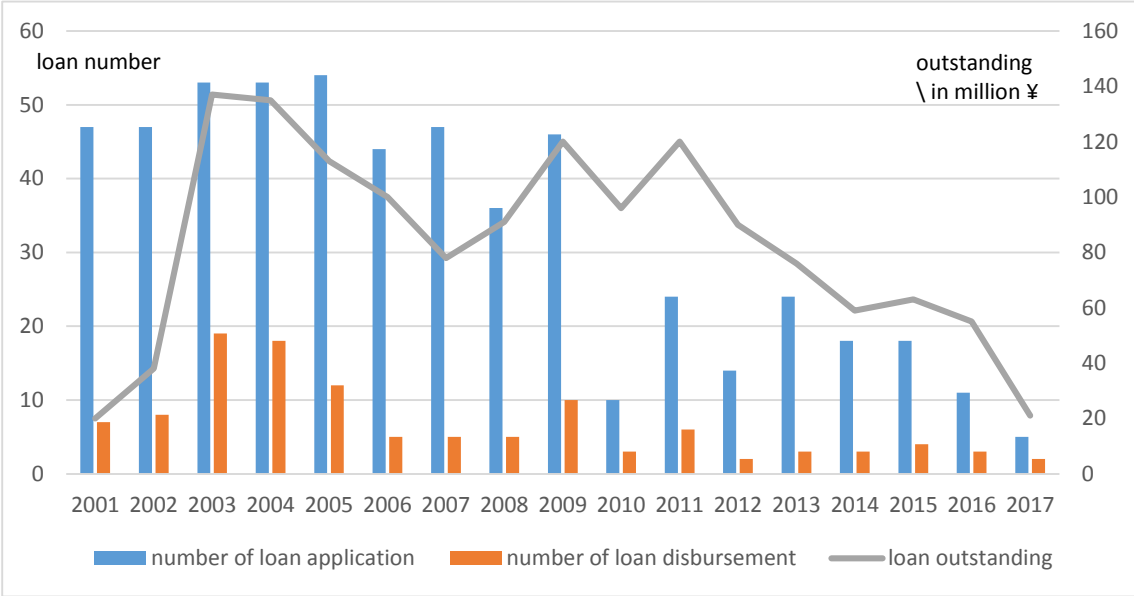
In particular, Kinki Rokin Bank started exploring a way to collaborate with NPOs as early as in 1998. In 2005, Kinki Rokin Bank, Kyoto Rofukukyo and Kyoto NPO Centre set up a lending mechanism in which Kyoto Rofukukyo provides guarantee up to ¥20 million, Kyoto NPO Centre assesses the public interest aspect of the loan application, and Kinki Rokin Bank provides the loan when appropriate. This lending mechanism allowed Kinki Rokin Bank to provide start-up loans to NPOs, which Rokin Banks usually don’t do due to the high risks (Hohashi, 2010).

Kinki and Chuo Rokin Banks were very active in offering loans for non-profits in early 2000s; much attention was paid to Rokin Banks as well as other financial cooperatives providing such loans and they were frequently exposed to mass media.

However, the situation has changed since the late 2000s, when “Japanese non-profit boom” became less dynamic and the loan performance dropped down. Strong competitors emerged at that period; among them, Japan Finance Corporation (JFC) offers loan products with very low interest rates to non-profits and social enterprises. JFC sharply increased loans to both small and large sized non-profits in recent years. As a result, as shown in the Fig.7, the number of loans to NPOs has decreased since 2010 and Rokin Banks are much less represented in the NPO lending business than in the early 2000s.

Despite this trend, Rokin Banks remain committed to support organizations that promote welfare of workers and communities. As an example, Niigata Rokin Bank and Rokinren lent ¥495 million to a social welfare corporation to construct a welfare facility for elderly care in 2017. It is a good start for Rokin Banks to step in larger-sized welfare business loan business.

Figure 7. Non-profit business support loan at Chuo Rokin Bank



6.4. SOCIALLY RESPONSIBLE INVESTMENT (SRI)

JTUC-Rengo adopted a guideline on responsible investment of workers’ capital in 2010. The guideline suggests trade unions and pension funds to consider environmental, social and governance (ESG) factors when investing their capital. However, JTUC-Rengo faced challenges to encourage trade unions and pension funds to follow the guideline. According to JTUC-Rengo, the slow dissemination of the guideline seems to be due to a semantic issue. Trade union leaders tend to interpret the word “investment” as “making a profit”, which refrains them from engaging in SRI.

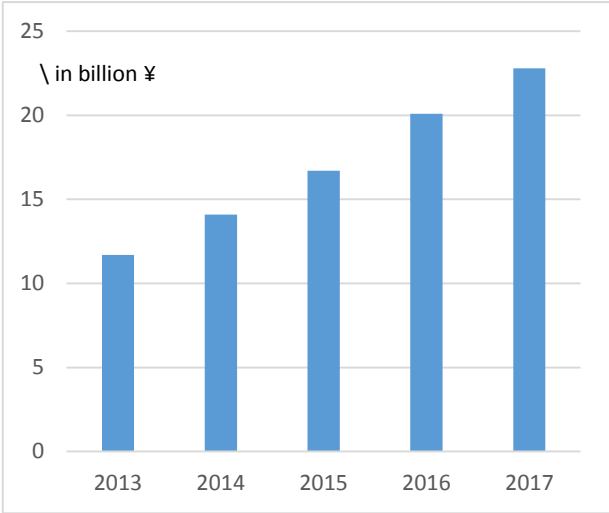
Rokin Banks had a different approach. In 2010, Rokinren made its own principle on responsible investment along JTUC-Rengo’s guideline, announcing that Rokinren considers environmental, social and governance (ESG) factors in the process of analysis and decision-making of investment (Rokinren 2018). In addition, Rokinren signed to the principles for responsible investment (PRI) in September 2017, which was the first case for deposit-taking domestic financial institution in Japan. Outstanding amount of SRI keeps increasing (Fig.8).

Rokinren’s SRI examining committee is held monthly to conduct positive and negative screening operation based on its own principle. Rokinren’s positive screening means investment trust, with which an asset manager of an agent brokerage house invests based on Rokinren’s SRI principle.

However, Rokinren’s investment trust is small-sized; ¥111.7 billion (2.6 per cent out of the total securities) at the end of March 2018. On the other hand, Rokinren’s negative screening means divestment, with which Rokinren divests corporate debentures and shares of problematic companies,

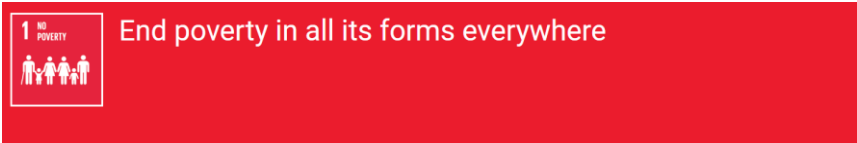
based on the information from investment advisory services. Rokinren’s investment in corporate debenture is large-sized: ¥1.5 trillion (37.0 per cent out of the total securities). Although debentures have less liquidity than shares, Rokinren can make a greater impact by divestment than investment trust. Rokinren neither has dialogue with investee companies nor exercise voting rights as a shareholder. Given the recent trend of shareholders action among active responsible investors, Rokinren may become an active investor with influential voices.

Figure 8. Outstanding Socially Responsible Investment (SRI)



6.5. CONTRIBUTION OF ROKIN BANKS TO THE SUSTAINABLE DEVELOPMENT GOALS

This subsection examines how Rokin Banks’ activities contribute to the United Nations’ Sustainable Development Goals (SDGs) in Japan, and in particular to 8 of them: SDG 1 No poverty, SDG 4 Quality education, SDG 5 Gender equality, SDG 8 Decent work and economic growth, SDG 10 Reduced inequalities, SDG 13 Climate action, SDG 15 Life on land, SDG 17 Partnerships for the goals.



Since its establishment, Rokin Banks have striven to improve workers’ living conditions, including poor and vulnerable male and female workers by offering affordable and adapted financial services, providing financial education and advocating for better financial regulations. The contribution of Rokin Banks to SDG 1, and in particular to *Target 1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance*, focuses on three main initiatives: addressing workers’ over-indebtedness, providing laid off workers and job seekers with safety net loans, and meeting the financial needs of non-regular workers.

(1) Addressing workers' over-indebtedness by:

- Offering indebted workers to switch their high-interest loans taken from money lenders to low-interest loans offered by Rokin Banks to lessen repayment burden.
- Joining advocacy campaigns with Rofukuyo for amending financial regulations to reduce the risk of over-indebtedness: i) Amendment of the Law on Investment Deposits and Interest Rates in 1983: This amendment subducted maximum interest rate from 109.5 percent to 73 percent. ii) Amendment of Moneylending Control Act in 2006: This amendment subducted maximum interest rate from 29.2 percent to 20 percent and strengthened regulation to money lenders.
- Setting up a Life Support Movement that has three main objectives: rescue heavy debtors, provide financial education to prevent over-indebtedness and promote asset building.

(2) Providing laid off workers and job seekers with safety net loans:

- Loan for housing and life support while searching for a stable job: Rokin Banks launched this special loan for people who lost their house as a result of being laid off in 2008, in response to the financial crisis and a request from Ministry of Health, Labour and Welfare (MHLW) at that time. This special loan program ended in 2010.
- Loan for job seekers' training and life support: Rokin Banks, closely working with MHLW, started in 2009 a loan program to provide job seekers on public job training with a loan to cover their living expense. This loan aims to supplement the limited government welfare provided to the job seekers who are not eligible to unemployment insurance and who undertake public job training. This loan program is still effective.

(3) Meeting the financial needs of non-regular workers:

- Rokin Banks have been increasingly looking at serving non-regular workers who are more vulnerable due to their contract status and often being non-unionized. As an example, Niigata Rokin Bank developed a loan product targeting exclusively non-regular workers in 2014. This loan is designed for car purchase and educational expense.



Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Rokin Banks contributes to SDG 4 and in particular to *Target 4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university*, by:

- Offering students/workers to switch their education loans taken from commercial banks to Rokin Banks' education loans, which present lower interest rates. This initiative has been undertaken in particular by Kyushu Rokin Bank and Hokkaido Rokin Bank, in collaboration with local Rofukukyo.
- Providing a loan product for job seekers' training (see above under SDG 1).



## Achieve gender equality and empower all women and girls

Rokin Banks contribute to SDG 5, in particular to *Targets 5.4 Recognize and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate* and *5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life* by:

- Promoting work-life balance and gender equality by encouraging shared responsibility in child-rearing within the household. As an example, Rokinren and Chuo Rokin Bank were recently accredited by Tokyo metropolitan government as a company dedicated to supporting child-rearing.
- Supporting gender empowerment through promoting women to management positions (such as branch managers).



## Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Since its foundation in the 1950s, Rokin Banks have been working hands in hands with trade unions and other public and private organizations to promote workers' interests and improve their wellbeing. As an integral part of this network of welfare organizations, Rokin Banks contribute to *Target 8.5 By 2030, achieve full and productive employment and decent work for all women and men*, and *Target 8.8 Protect labour rights and promote safe and secure working environments for all workers*. Particularly the Rokin Bank group contribute to *Target 8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all* by:

- Federating and supporting, through the NALB and the Rokinren Bank, a network of 13 Rokin Banks reaching out to over 11 million workers and consumers and providing them (including the most vulnerable amongst them) with responsive financial services.



## Reduce inequality within and among countries

Rokin Banks contribute to SDG 10 on reducing inequality in Japan by offering financial services to workers (including low income workers) and working towards improving their living conditions. Moreover Rokin Banks' vision statement towards 2025 is to *"Realize an inclusive society where people support one another"*. The implementation of this vision is contributing in particular to *Target 10.2 By*

2030, empower and promote the social, economic and political inclusion of all irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.

In addition, Rokin Banks have been very active in the past decades in advocating for regulations to promote and protect the interests of workers. Examples of achievements include the amendment of the Law on Investment Deposits and Interest Rates in 1983 and of the Moneylending Control Act in 2006, to reduce the maximum interest rates. In the framework of the SDGs, it is to be noted that Rokin Banks would have the commitment and the capacities to advocate for improved regulations and mechanisms shall the needs arise, and hence contribute to *Target 10.5 Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations.*



### Take urgent action to combat climate change and its impacts\*

Rokin Banks contribute to SDG 13, in particular to *Target 13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries by:*

- Providing emergency loans with low interest rates to families affected by disasters.
- Rescheduling loan repayments for families affected by disasters.
- Not levying transfer/remittance fees for donations.
- Partnering with JCCU to facilitate smooth financial transactions in times of disasters.



### Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Rokin Banks contribute to SDG 15, in particular to *Target 15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally* by engaging actively in environmental activities. As an example, Rokinren has been dedicated to environmental activities in forests, named "School of Forest", since 2005. These activities include reactivating community-based forest, capacity building of management staff and natural experience. To date, more than 170,000 people joined these activities. "School of Forest" was accredited as a partnership program of Japan Committee for United Nations Decade on Biodiversity (UNDB-J) in 2015.



## Strengthen the means of implementation and revitalize the global partnership for sustainable development

Rokin Banks contribute to SDG 17, in particular to *Target 17.17. Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships by considering, since its establishment, that partnerships are key to a successful delivery of services to workers and the realisation of its mission.* Key partnerships have included:

- Ministry of Health, Labour and Welfare (MHLW): Provision of loan for housing and life support while searching for a job and loan for job seekers training and life support.
- Chuo Rokin Bank, Life Support Fund and Tokyo metropolitan government set up the Life Rebuilding Program for heavy debtors in Tokyo.
- Kinki Rokin Bank, Kyoto Rofukukyo and Kyoto NPO Centre set up a lending mechanism for NPOs in Kyoto.

### 6.6. FUTURE OF WORK DISCUSSIONS

This subsection discusses how Rokin Banks' activities relate to the ILO's Future of Work discussions. ILO's report titled *"The future of work centenary initiative"* (ILO 2015) shows four main centenary conversations: "Work and society", "Decent jobs for all", "The organization of work and production" and "The governance of work". Some of the activities of Rokin Banks resonate with these topics:

#### **Work and society**

The ILO report notes significance of work and negative impacts of unemployment to workers' health status and longevity. As described before, Rokin Banks provided a special loan for housing and life support while searching for a stable job to people who lost their home after being laid off in 2008. In 2009 Rokin Banks also provided another special loan for job seekers' training and life support in response to MHLW. Such special loans helped job seekers to increase their employability and get a job and rebuild their lives under the credit crisis time.

#### **Decent jobs for all**

The ILO report stresses the needs for creating new jobs to achieve decent jobs for all, identifying two sectors for future job growth: the green economy and the care economy. One of the challenges for the expansion of these sectors in Japan is the lack of funding. The biggest portion of accredited non-profit corporations in Japan is engaged in welfare and medical care including for the aging and poor population. In particular, many consumers' cooperatives and NPOs are dedicated to elderly care. Some of them are also engaged in renewable energy such as solar power. NPOs create jobs in those two sectors. However, due to their size and their status, they often face challenges in raising funds to expand their activities. As mentioned before, Rokin Banks started lending to NPOs in 2000 but the proportion of loans to NPOs in its portfolio remains limited.



Another challenge for the expansion of the green and care economies in Japan is the skills and training for workers, especially for disadvantaged workers including youth, women and the disabled, according to the ILO report. Rokin Banks have experience in providing special loans to job seekers to enable them to get training and increase their employability. Although this special loan was designed to address unemployment during the recession and credit crisis, Rokin Banks could consider to replicate the initiative to promote job training in the care or green economies.

### **The organization of work and production**

The ILO report points out the trend that shows the shift from lifelong jobs to flexible, short-term and transient forms of work, including professionals' self-employment work style. The report also emphasizes the challenges that result from the increase in non-standard forms of work organization and the importance of building social protection systems. Social protection systems have been based on standard employment relationship but need to be adjusted in response to the shift to non-standard work relationships. Japan is not exempted from these trends. Since the Keidanren (Japanese Federation of Economic Organizations) recommended to utilize more non-regular workers in 1995, the number of non-regular workers has sharply boosted. In recent years, youth poverty also became a serious social issue due to insufficient opportunities to get a well-paid full-time job when entering the labour market and the absence of adapted safety net systems. There is a need to revisit social protection systems by limiting the reliance on fringe benefit for employees and seeking alternative public welfare models to protect workers with diverse forms of employment.

For many decades, Rokin Banks have thrived partly because their main financial products, such as Zaikei and housing loans, went along with fringe benefit for employees with lifelong jobs in large enterprises. Rokin Banks have recognized the needs to serve workers with diverse forms of employment and taken some steps to address the changing employment trends. As noted before, Niigata Rokin Bank started providing a loan product exclusively for non-regular workers in 2014. Chuo Rokin Bank is providing Zaikei product to non-regular workers who joined trade unions. These limited initiatives have been successful, however, they would need to be replicated and up scaled in order to respond effectively to the megatrend. Rokin Banks are also exploring how to address the financial needs of the increasing number of workers engaged in self-employment.

According to the Labour Bank Act and its Enforcement Order, Rokin Banks are supposed to lend to trade unions, consumer cooperatives and public entities, and are not allowed to lend to for-profit enterprises as a general rule. As seen before, Rokin Banks serve consumer cooperatives. Rokin Banks are now exploring how to reach out to workers' cooperatives. In 2018, the NALB started a discussion with the National Association of Workers' Co-operatives about building a partnership. Worker cooperatives in Japan have submitted to the government a proposal for a legislation that will give them a unique legal status. If the new law passes, Rokin Banks will be able to lend to worker cooperatives and workers who belong to worker cooperatives.

The ILO report also mentions the issue of financial economy and effect of pursuing high levels of short-term returns. Financial institutions are expected to contribute more to the real economy, particularly by financing to small and medium-sized viable enterprises. To that extent, as mentioned

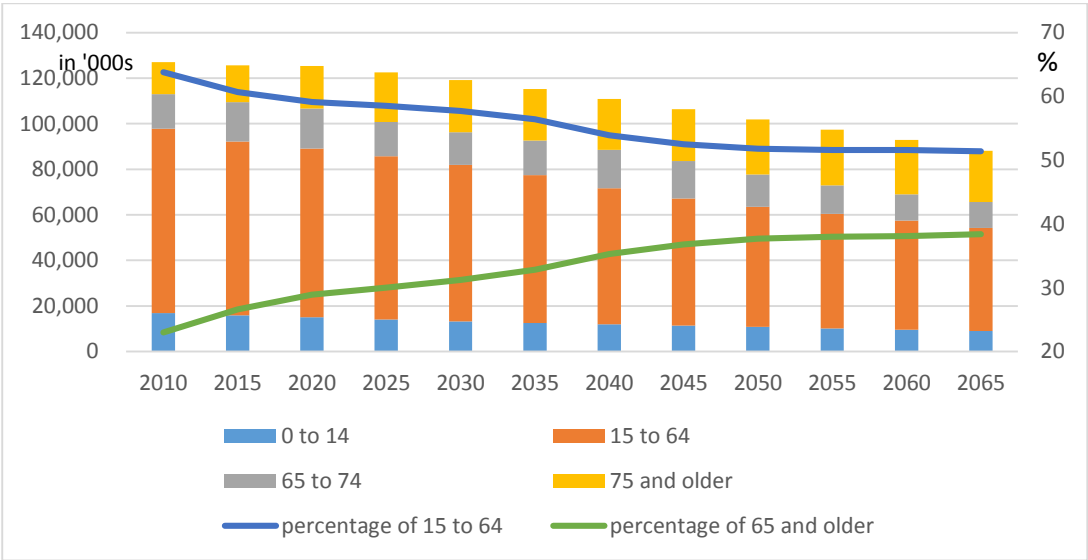
before, Rokin Banks have been supporting consumer cooperatives for decades and more recently Rokinren, the National Federation of Labour Banks, signed to the Principles for Responsible Investment (PRI) which guides its investment policy and hence promotes socially responsible investments.

## 7. CHALLENGES FACING ROKIN BANKS

There are four major challenges facing Rokin Banks: (1) aging and shrinking population, (2) increasing number of vulnerable workers and poverty, (3) declining unionization rate which shrinks membership basis of Rokin Banks, and (4) increasing competition among banks.

### 7.1. AGING AND SHRINKING POPULATION

Figure 9. Population by age in Japan



Source: Cabinet Office (2018) White paper on aging society in FY2018.

As shown in Fig.9, Japan’s population is estimated to decrease and to age in the future. Aging and shrinking population will have negative impacts on the management of Rokin Banks. The number of workers who could potentially use Rokin Banks’ products will grow less than before. In addition, the financial needs of the aging members will also evolve, requiring Rokin Banks to revisit its products and services.

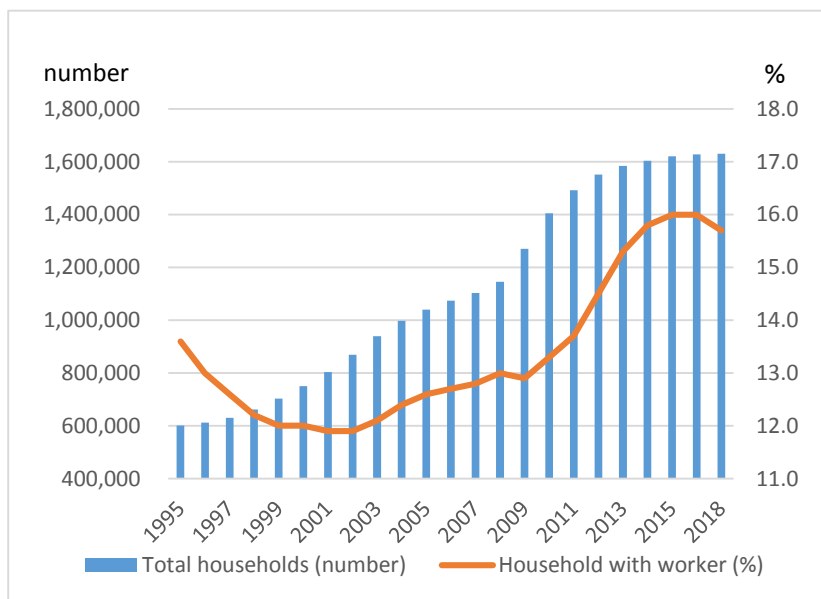
### 7.2. INCREASING NUMBER OF VULNERABLE WORKERS AND POVERTY

Since its establishment, Rokin Banks have thrived to improving living conditions of vulnerable workers through access to financial services. Rokin Banks have built their model on the fact that workers had lifelong jobs in large enterprises, were unionized, and needed certain types of products such as housing loans, consumption loans (car, education, etc.) that they could not access on the market. Over time

the financial sector has grown and expanded its services to workers. The world of work has evolved, too.

The percentage of non-regular workers has grown from 16.4 per cent in 1985 to 37.5 per cent in 2015. The relative poverty rate has also grown from 12.0 per cent in 1985 to 15.6 per cent in 2015. The average hourly wage is ¥1,937 for regular workers, whereas ¥1,081 for non-regular part-time workers as of FY2017. Given the limited opportunities to become regular workers, as many as 2.7 million of workers keep working as non-regular workers.

Figure 10. Households receiving public assistance



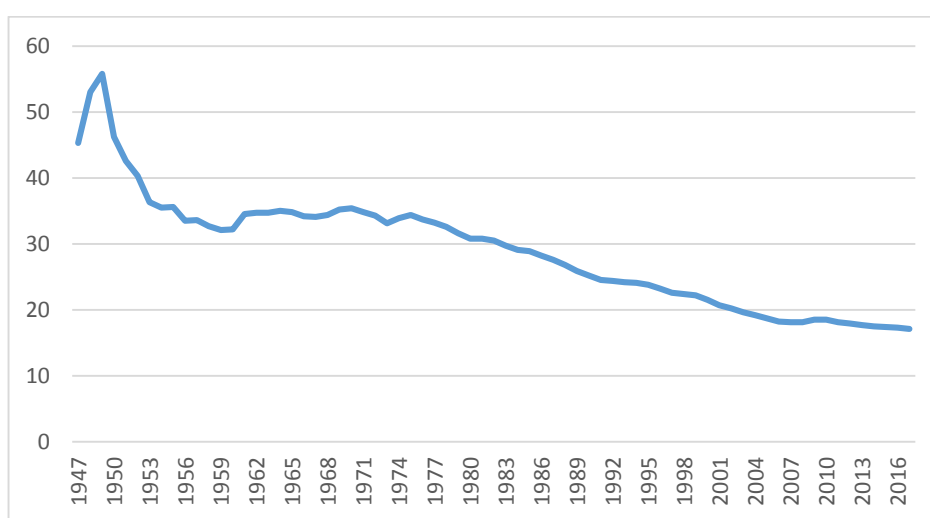
Source: report from Ministry of Health, Labour and Welfare (MHLW)

The growing number of non-regular workers is one of major factors of deepening poverty. Working families receiving public assistance increased in percentage since 2001 (Fig.10). Rokin Banks recognize the increasing number of vulnerable workers with diverse forms of employment, and the increasing poverty among workers, including young workers. The first challenge for Rokin Banks is to reach out to these vulnerable workers who have short-term employment contracts, face periods of unemployment in between, and are as a result less likely to be unionized. The second challenge for Rokin Banks is that its standard products and services are not always adapted to the needs of those vulnerable workers. Rokin Banks have tested on a small scale basis the offer of specific products for non-regular workers. Nevertheless, in order to serve effectively a growing number of vulnerable workers as a proportion of its total indirect members, Rokin Banks would need to revisit its operating model.

### 7.3. DECLINING UNIONIZATION RATE

The estimated unionization rate has kept decreasing since 1950, to as low as 17.1 per cent in June 2017 (Fig.11). While the total number of workers increased from 53 million in 1998 to 58 million in 2018, the number of unionized workers decreased from 12 million to 10 million during the same period. Part-time workers are less likely to be unionized: only 7.9 per cent of them join trade unions, although the rate gradually increased in recent years. This declining unionization rate is a challenge for Rokin Banks because their business model is based on a strong and close relationship with trade unions. Mimura (2014) pointed out a long trend of decreasing number of indirect members of Rokin Banks who belong to trade unions.

Figure 11. Estimated unionization rate in Japan (%)



Source: report from Ministry of Health, Labour and Welfare (MHLW)

There has been much discussion for decades on both positive and negative sides of Rokin Banks' unique membership model: organization-based membership principle (Ouchi et al. 1987; Mimura 2014). There also has been much effort to mitigate the limitations of organization-based membership model, sometimes by directly listening to individual workers, advertising via mass media, or by organizing retired workers (former trade union members). However, a major remaining issue is that Rokin Banks' marketing channels are likely to be affected by the understanding and the attitudes of trade union leaders towards Rokin Banks. In other words, trade union leaders' thoughts on Rokin Banks critically matter. The reasons of existence of Rokin Banks were obvious for trade unions at their start-up, because no commercial banks lent to workers. Commercial banks' entry into the retail banking market blurred the difference between Rokin Banks and other banks. Moreover most trade unions took the stance of harmonious labour relations in the 1970s, and did not need to provide life support to the workers during the strikes. As time went on, elder trade union leaders were taken over by a younger generation of leaders who are less or not familiar with the Rokin Banks. As an example, only 40 per cent of indirect members of Chuo Rokin Bank use the bank's products because trade union executives and members do not appropriately understand the difference between Rokin Banks and other banks. Those changes diluted the relationship between Rokin Banks and trade unions.

While trade union leaders used to see a Rokin Bank as a partner of workers' welfare movement in the past, most trade union leaders now see a Rokin Bank as a vendor of financial services among many others.

In addition, Rokin Bank leaders have long recognized the issue of non-unionized workers and discussed how to organize those workers. In the 1950s Rokin Banks formed consumers' credit cooperatives for non-unionized workers but most of those cooperatives failed to survive. In the 1980s Rokin Banks welcomed the service industry workers, who were increasing in numbers and who were less likely unionized, to utilize the Rokin Banks' financial products. Although much effort is being made to approach non-unionized workers to sell their products, it has been pointed out that approaching them still remains an issue to be addressed (Ouchi et al. 1987; Muroya 2003; Mimura 2014).

#### 7.4. INCREASING COMPETITION AMONG BANKS

Another challenge for Rokin Banks is the severe competition among banks. Until today, Rokin Banks have been able to remain attractive to workers thanks to their face-to-face and human-touch services offered through the promotion committees at the workplace. Endless competition with high street commercial banks towards lower interest rates will however deprive Rokin Banks of management vitality in the long run.

### 8. LESSONS LEARNT AND RECOMMENDATIONS

#### 8.1. MAJOR LESSONS LEARNT FROM ROKIN BANKS' EXPERIENCE

Rokin Banks seem to be quite unique in the world, as they are a rare case of banks founded by trade unions and consumers' cooperatives. Establishing labour banks was commonly seen in the early 20th century, when poor workers could not access affordable financial services. Most of them failed. Then why do Japanese Rokin Banks thrive till today?

It is not just because of good governance and management skills. Rokin Banks were successful at adjusting themselves constantly to government policies and social needs. Rokin Banks were founded to provide savings and credit services to the workers and their trade unions as well as to lend to consumers' cooperatives in the 1950s. Workers borrowed relatively small amounts for their living expenses from Rokin Banks at that time. The housing loan became Rokin Banks' main loan product in the 1970s, along with the government's policy to promote house ownership. The Zaikei savings product and housing loan were in line with the government policies and Japanese welfare regime.

The Japanese welfare regime was said to be a mixture of liberal regime and conservative regime according to Esping-Andersen's classification until the early 1990s, which was characterized as minimized welfare state, developed employer-led welfare system, workplace-based social security system and strong family-based assistance. Rokin Banks went along with that welfare regime as a framework for its operations. That regime has shifted to liberal regime since the 1990s; social welfare services were commercialized by the basic welfare structure reform; the government cut down budget

on social services; the growing number of non-regular workers made employer-led welfare system unstable; the family-based assistance model is also changing as women started to enter the labour market (Ito 2008). Under the dominant atmosphere of individual responsibility and advancing isolation among people, it is getting harder for diverse profiles of vulnerable workers to find a way to unite themselves.

Rokin Banks are adapting to such changes. In 2011, the NALB conducted a series of study meetings on the Rokin Banks' future that led to the formulation of the Rokin Banks' vision towards 2025 in 2014. Rokin Banks now have a clear view on how to meet ever-changing social needs, in particular promoting solidarity among all workers, independently of their status.

While Rokin Banks have thrived under the unique welfare regime in Japan, the following features clearly contributed to their success:

- Management and leadership commitment to the cause of the workers: Trade unions have a strong influence on decision-making of Rokin Banks, and Rokin Banks' staff always work based on workers' needs at their workplace.
- Unique regulatory framework: Rokin Banks are supervised by both Financial Services Agency (FSA) and Ministry of Health, Labour and Welfare (MHLW). While this dual supervision is complex, it brings together the financial performances required by a financial institution and the public interest purpose.
- Integration in the national welfare system: Rokin Banks are key actors of the workers' mutual assistance system, working with Zenrosai, consumers' cooperatives and civil organizations under the network of Rofukukyo. This workers' mutual assistance system aims to complement and/or offer an alternative to the standard corporate fringe benefit system.
- Strong partnership with trade unions: Rokin Banks reach out to workers through their engagement with trade unions. Trade union leaders are on the Rokin Banks' board of directors in order to keep the Rokin Banks' initial mission alive.
- Convenience and human touch: Rokin Banks provide banking services at the workplace and face-to-face consultations to the workers. The member promotion committees play an essential role in bridging Rokin Banks to trade unions and keep direct communication between Rokin Banks, trade unions and workers.
- Constant adaptation of products and services to the changing needs of workers.

## 8.2. RECOMMENDATIONS

Rokin Banks thrive because of the specific background of financial exclusion of the workers in the 1950s, the existence of workers' welfare movement and a unique welfare regime – this combination of factors does not allow for an easy replication or generalization in the contemporary circumstances.

However, many trade unions started to offer financial services for their member workers in many countries, such as Dominican Republic, Costa Rica and Honduras (ILO 2016). A teachers' union in Tanzania recently founded a worker's bank. A 2013 ILO survey reported that two thirds of unions

requested assistance to start or improve the provision of financial services. In this context, what recommendations can be generated from the Japanese Rokin Banks?

The first point is to create or build on a network of organizations that support workers all through their lives. In the course of their working lives, workers may face multiple and sometimes complicated issues related to housing, education, employment, healthcare and household finance. Trade unions can help workers to address those issues, closely working with financial institutions, cooperatives, mutual aid societies and non-profit organizations. The collaboration in the workers' welfare movement in Japan was key to the success of the Rokin Banks. In addition, the tighter a trustful relationship between trade unions and member workers is, the stronger win-win partnership between trade unions and worker's banks will be achieved.

The second point is to diversify its membership beyond trade unions by reaching out to cooperatives and non-profit organizations to indirectly support workers' lives. A worker's bank could hence provide financial services to cooperatives, nursing homes, hospitals, childcare centres, schools, recreational facilities as well as civil society organizations, like European social banks. Japanese Rokin Banks' experience implies that it requires much effort to build trust with consumers' cooperatives and non-profit organizations.

On the other hand, there are many cooperative banks and credit unions in developed countries. While these banks originally served poor craftsmen and peasants who were excluded from high street banks, they adapted to social change and became quite similar to traditional banks after some time. Isomorphism seems to be inevitable for financial institutions, given the maturity of the financial industry and the high penetration of financial services. However, some cooperative banks try to reactivate their original missions in a modernized way, such as providing microloan fund to entrepreneurs via microfinance institutions. Thus, trade unions and worker's banks should always keep in mind their original missions and thrive to enhance inclusive finance for vulnerable workers (including retired workers) and to alleviate poverty despite the evolution of the financial sector.

There are several points to consider when designing a new worker's bank.

(1) A clear mission and vision: The mission and vision of a worker's bank must clearly define that the bank is established by workers and for workers. These clearly stated mission and vision will enable the worker's bank to differentiate itself from traditional banks and to keep its original ethos alive after its founding members leave or retire. It implies that every staff and board member should be well informed about the bank's vision and mission. Moreover, it is important for a worker's bank to review its mission and vision as the time goes in order to take into account the changing needs of its target groups and the evolving environment in which it operates. For example, Rokin Banks revisited their mission in 1997, some 30 years after the original mission was defined.

(2) Good governance: A worker's bank must protect its mission through good governance. It is essential for trade unions, cooperatives, non-profits and socially motivated individuals to be involved and to remain involved over time in the decision-making process of the worker's bank. This good governance will minimize the risk of moving away from the organization's initial mission (=mission-drift) that may happen for example when profit-seeking investors express interest in taking over the bank and thereafter change its mission. However, it does not mean that the socially motivated core

stakeholders overly intervene in the management of the worker's bank. They may be involved in the policy making of worker's banks as board members, advocating for workers' interest on behalf of trade union members, nevertheless they should respect and rely on the views of the banking experts when it comes to the financial management of the bank.

(3) A marketing strategy: A worker's bank should develop its marketing strategy based on its mission. When Rokin Banks were established, they did not have to have a marketing strategy because there were no competitors providing affordable financial services to low-income workers. However, Rokin Banks had to differentiate themselves from other banks when the financial sector matured after the 1970s. Rokin Banks specialized in housing loans for workers, using a unique channel of trade unions.

(4) Balance between mission and prudence: As a regulated financial institution, a worker's bank must keep its managerial soundness and good risk management to protect its members' or customers' deposits. On the other hand, a mission-led bank should contribute to addressing workers' financial needs and interests, instead of prioritizing its own profit and risk-aversion. A worker's bank is to have clear guidelines and processes in place to assess loan applications, looking at both risk management and the needs of the workers. The evolution of the world of work with a greater number of workers engaged in non-standard forms of employment, increasing poverty and inequality does not make it easy for worker's banks. Can a worker's bank lend to a member/customer who failed to repay another loan because he or she lost his or her job? Can a worker's bank provide a housing loan to a low-income part-time worker? These questions require worker's banks to rethink the way they operate. If their main goal is to address workers' needs and enhance financial inclusion, they are expected to create, balancing their mission and the required prudence, innovative mechanisms to enable all workers, in particular, those with unstable and/or low income, limited assets and no collateral (such as land or house) to access their services.

## 9. CONCLUSION

This report examined the experience of Rokin Banks, Japanese trade-union led cooperative financial institutions, in providing financial services to workers since the 1950s. The analysis highlighted that the success of Rokin Banks over the years lies in a number of factors including a conducive regulatory framework, the capacity of Rokin Banks to adapt constantly in a fast changing socio-economic environment, a strong involvement of trade unions at all levels including on Rokin Banks' board of directors, to protect workers' interests, design adapted financial services and deliver them to the workers, and key partnerships with cooperatives, mutual aid societies, non-profits and government institutions. Rokin banks have successfully overcome many challenges during its 70 years of existence, yet more have appeared. In recent years, Rokin Banks have started to explore and test ways to address the challenges caused by the increasing number of vulnerable workers in Japan. More and more workers around the world live facing economic uncertainty. They are likely to be affected by economic downturn, unstable job situations, natural disaster and any other personal situations such as illness. Vulnerable workers who do not benefit from viable safety nets such as unemployment insurance,



health insurance, welfare and from an access to affordable finance tend to rely on high interest loans to meet their financial needs. Consequently, they have a higher risk of falling into a debt trap—over-indebtedness. Over-indebtedness is a tragedy that can be seen in many countries. Traditional financial institutions, with their automated decision-making algorithms, are usually not flexible enough to provide customized services to meet the needs of each and every one of their customers, and to support the most vulnerable ones when it comes to over-indebtedness. Rokin Banks have demonstrated that worker's banks, with human-touch and a customized approach can be a bulwark to serious indebtedness and insolvency.

Replicating the Rokin Banks' model does not seem to be realistic in today's context. Nevertheless the analysis showed that worker's banks as well as cooperative banks and credit unions have a key role to play in providing affordable finance to support vulnerable workers' lives in both developed and developing countries.

Rokin Banks' unique experience can serve as a great inspiration to trade unions, financial institutions and other organizations that wish to enhance access to finance for workers.

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## Appendix 2: List of key informants

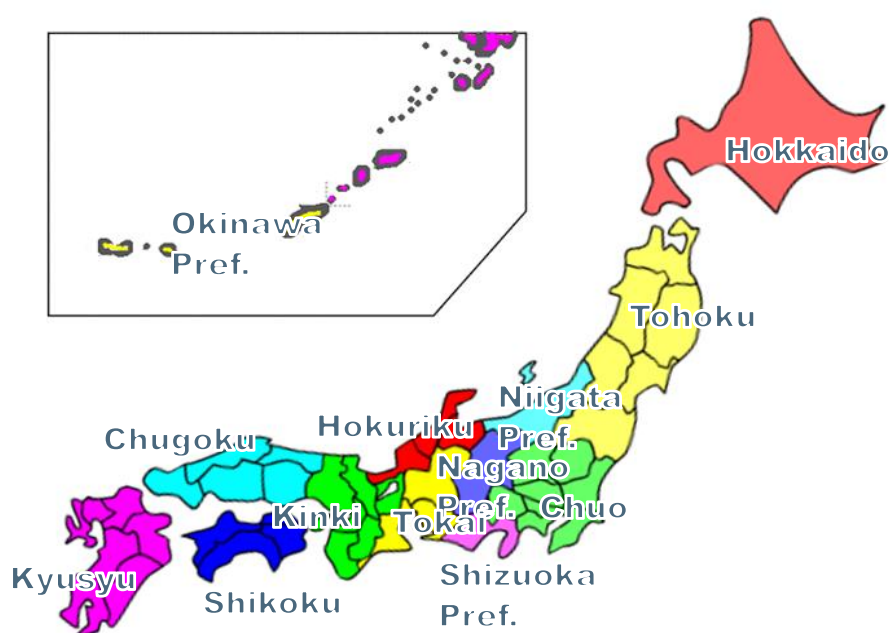
- Central/Chuo Rokin Bank: president and managing directors, interviewed on Sep.14, 2018.
- Central Rofukukyo (National Council of Workers' Welfare): secretary-general and vice secretary-general, interviewed on Sep.11, 2018.
- Dynam Union: chairperson and a steward interviewed on Sep.10, 2018
- Financial Services Agency: director, Financial Co-operatives Office, interviewed on Sep. 4, 2018
- Japanese Consumers' Co-operative Union (JCCU): manager, department of public relations, interviewed on Sep. 4, 2018.
- Japan Institute for Labour Foundation (JILAF): secretary-general, vice secretary-general and advisor, interviewed on Sep.12, 2018.
- Japan Workers' Co-operative Union (JWCU): president, managing director, director and advisor, interviewed on Sep.12, 2018.
- JFE Steel Sendai Workers' Union: chairman, interviewed on Sep.13, 2018.
- JTUC-Rengo: vice secretary-general and director of general planning department, interviewed on Sep. 12, 2018.
- Ministry of Health, Labour and Welfare (MHLW): assistant director, Office for Labour Banks, interviewed on Sep. 5, 2018.
- National Association of Labour Banks (NALB): president and managing directors, interviewed on Sep.14, 2018.
- Niigata Rokin Bank: managing director and director of corporate planning department, interviewed on Aug. 4, 2018.
- Rokinren (National Federation of Labour Banks): director and vice director of corporate planning department, interviewed on Sep. 11, 2018.
- Seikatsu Club Consumers' Co-operative: director interviewed on Aug.31, 2018.
- Shibuya ward office workers union: vice chairperson and secretary-general interviewed on Sep.11, 2018.
- Tohoku Rokin Bank: president and managing directors, interviewed on Sep.13, 2018.
- Zenrosai (National Federation of Workers and Consumers Insurance Co-operatives): general manager, office for investigation and advertisement, interviewed on Sep.20, 2018.

## Appendix 3: Overview and location of the 13 Rokin Banks

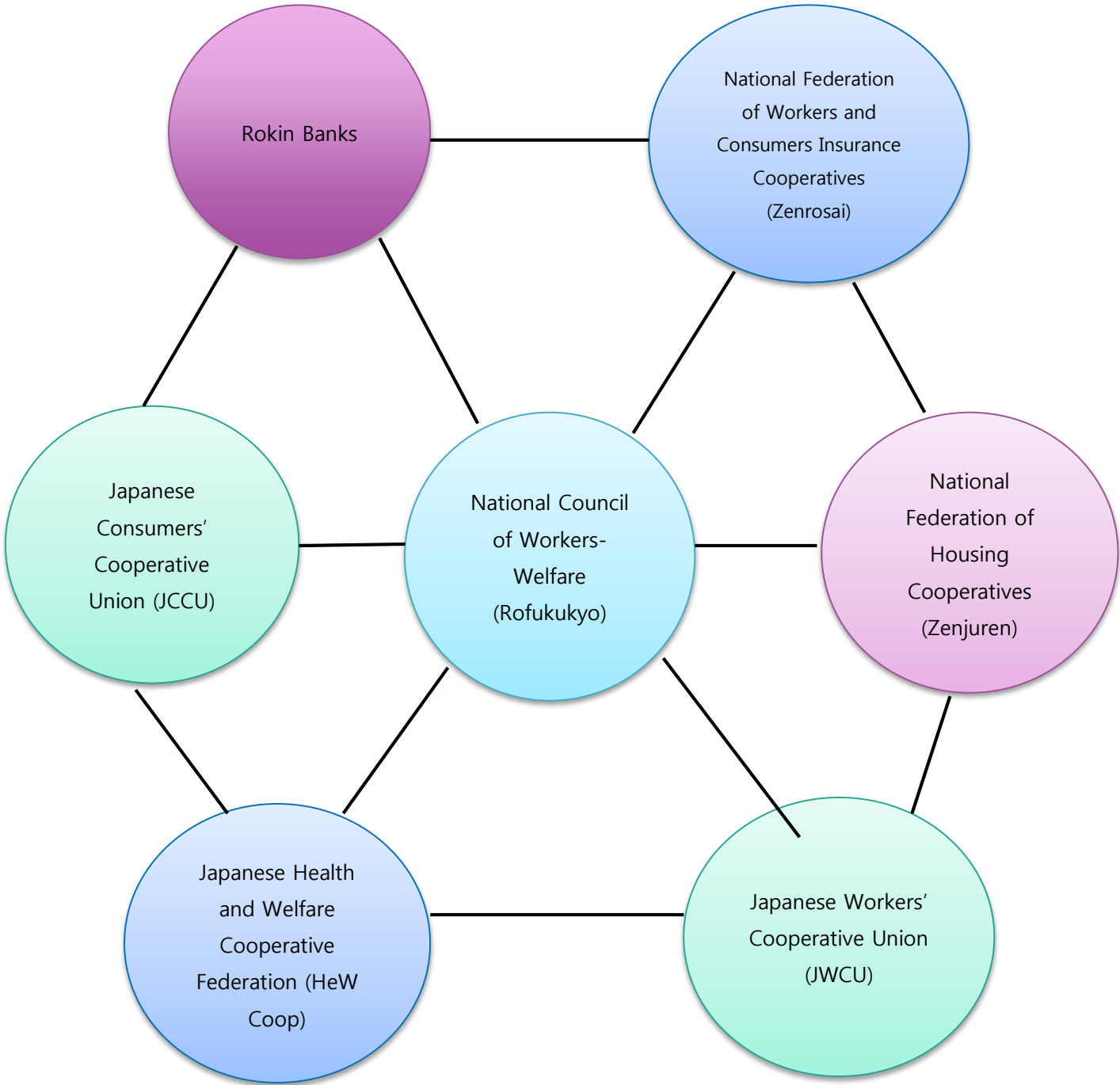
Overview of 13 Rokin Banks' performances as of March 2018

Level	Head office	Number of prefecture covered	Deposit (/billion ¥)	Loan (/billion ¥)	Capital ratio (%)
Hokkaido	Sapporo	1	983	673	9.20
Tohoku	Sendai	6	1,962	1,142	9.85
Chuo	Tokyo	8	6,048	3,985	9.43
Niigata	Niigata	1	798	381	18.48
Nagano	Nagano	1	656	345	11.87
Shizuoka	Shizuoka	1	1,043	753	12.94
Hokuriku	Kanazawa	3	750	401	10.54
Tokai	Nagoya	3	1,603	1,350	10.02
Kinki	Osaka	6	2,121	1,272	12.53
Chugoku	Hiroshima	5	1,126	657	9.59
Shikoku	Takamatsu	4	594	375	11.00
Kyushu	Fukuoka	7	1,795	1,263	9.18
Okinawa	Naha	1	247	148	12.31
Total		47	19,726	12,745	10.54

Location of 13 Rokin Banks



Appendix 4: Rofukukyo and the network of workers' welfare organizations



# SOCIAL FINANCE

With an emphasis on social justice, the ILO's Social Finance Programme supports efforts to extend financial services to excluded persons by addressing the promotion of better employment and a reduction in the vulnerability of the working poor. The Social Finance Programme operates through a central team based in Geneva, Switzerland. In addition, a global social finance network - working in different technical units at headquarters and in field offices around the world - further extends the work of Social Finance.



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