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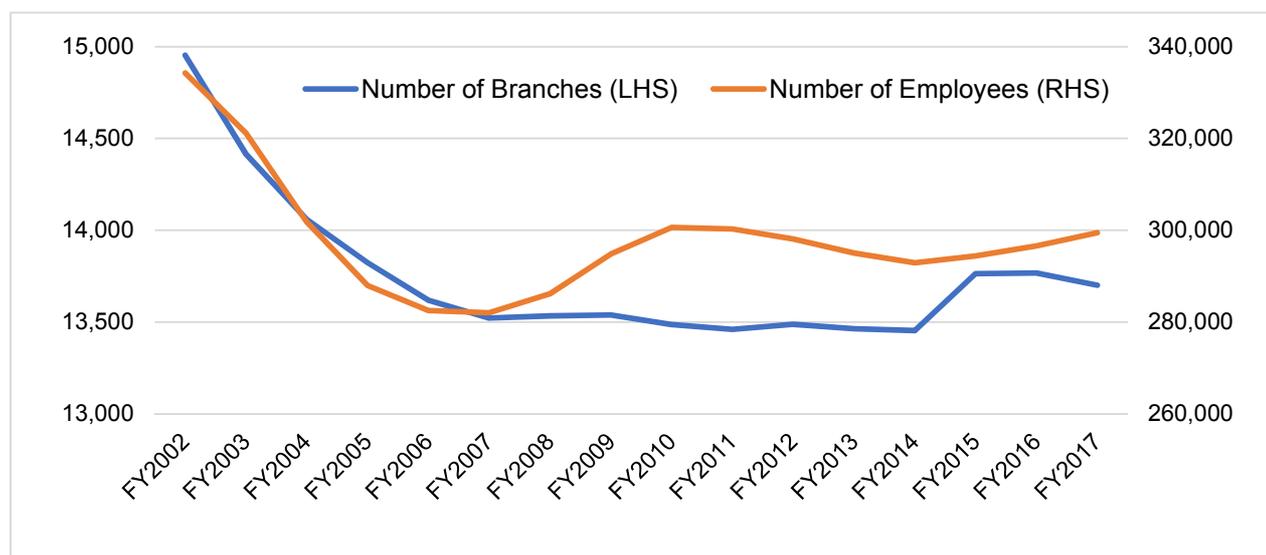
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Japanese Banking Sector: Changes are Underway

While the labour shortage is becoming increasingly severe in Japan, the banking sector in the country clearly stands out from the rest in terms of their commitment to address the problem. For example, the three megabanks have come up with a plan to close hundreds of branches and cut tens of thousands of workers over the next 5-to-10 years through information technology. In order to think about possible changes expected in the future, I made a visit to a regional bank based in the Hokuriku region, situated in the north-western part of Japan. This regional bank has also been reducing the number of their offices and branches, while cutting the number of employees at the same time. As a result of this, the number of their brick-and-mortar branches and employees dropped by about -30% and -20% respectively compared to their peak. Although they operate in a region that is not particularly strong in terms of generating profits, the bank has nevertheless managed to maintain its revenue above a certain level by implementing a number of cost reduction strategies. The chart below shows the number of employees and branches of 116 banks registered as members of the Japanese Bankers Association.

Japanese Banks: The number of employees and branches



Source: Japanese Bankers Association, data as at 28 May 2018.

Except for a period of time when the Japanese banks suffered from severe problems related to bad-loan disposals in the early 2000s, it is clear from the chart that both figures have largely been unchanged since then.

Apparently, this regional bank was not fully committed to reducing costs until around 2000, when it posted a negative income for the first time in its history due to the disposal of non-performing loans. Their cost-control initiatives included the consolidation of branches, centralisation of administrative procedures, and they pursued cost reduction even more aggressively after the global financial crisis. According to the bank, all of these changes were brought about by enhancing the awareness of cost control within the organisation while also utilising the available tools and resources for effectively reducing operational expenses. In terms of enhancing the awareness of cost reduction, the firm eliminated unnecessary tasks and implemented procedures to cut overtime, which as a result, created a paperless working environment. I actually had a chance to take a look inside their office and noticed that they provide only minimal storage facilities, making it possible to glance over the entire office floor. Moreover, by implementing collaborative software and mobile phones to cut back on extra time for taking calls, they are now ready to adopt new work styles such as “free-address” and “working from home”. Their efforts to eliminate overtime had a positive impact on cost reductions. With regard to the utilisation of tools and resources, they mainly focused on automation technologies. In addition to those mentioned above, the firm has also started to use **Microsoft** Surface tablets, allowing their staff to work anywhere they want. For example, they are not only able to work in the cafeteria to help them refresh, but also they are able to use tablets when they visit clients in order to meet the needs of their customers. The integration of back office functions, achieved by creating a central administration office has also improved operational efficiency within the organisation. They are highly committed to building their own infrastructures, and are now considering implementing new technologies and cloud accounting software in order to achieve further cost reductions. I believe that now is the time for them to take advantage of their experience of being highly committed to limit customisation and develop their own systems while at the same time, making sure that they communicate well with clients despite the possibility that some of their accounts may be lost due to changes in their operations.

After my visit, I came to the conclusion that if Japanese banks can successfully reduce the number of branches and employees, it could have a profound impact on their earnings. On the other hand, however, in order to achieve that goal, they will have to change their attitude to cost control in many different ways. Also, it may create a short-term downward pressure on their profits as they may be required to make up-front investments, which could be a cause for concern. Therefore, I was left with the impression that everything depends on the degree of commitment by the management to bring about changes in order to achieve their goals.

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