An assessment of the Japanese financial services sector

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This assessment report, prepared for the International Labour Organization by Prof. Isamu Yamamoto, is intended to provide a rapid overview of the financial services sector in Japan and to stimulate discussions at the Tripartite Workshop to Promote Social Dialogue on Financial Services Reforms in Selected Asia and Pacific Countries (Jakarta, Indonesia, 5-6 August 2015). The views expressed in the report are not necessarily those of the ILO.

International Labour Office

Geneva

29 July 2015
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1. The structure of the financial sector

As of March 2015, the Japanese financial system consisted of 141 banks (5 city banks, 16 trust banks, 105 regional banks, and 15 other banks), 267 credit associations (Shinkin banks), 155 credit associations, 679 agricultural associations, 252 security companies, 68 insurance companies, and other small financial and insurance agents. According to the 2012 Economic Census (Ministry of Internal Affairs and Communications), 201 organizations had more than 1,000 employees, 720 had 100–999 employees, and 31,498 had 1–99 employees, most of which were small insurance agents.

The financial sector’s share of employment in Japan is 2.5 percent, based on the 2012 Employment Status Survey (Ministry of Internal Affairs and Communications). Within the sector, banks had a 30.1 percent share of employment, and insurance companies had a 41.1 percent share. Female employees in the financial sector comprised 53.3 percent of all employees, which was higher than the national average of 43.9 percent. The share of non-regular employees (fixed-term employment such as part-time, contract, dispatched workers) was 22.0 percent, which was lower than the national average of 35.8 percent.

According to the Basic Survey on Wage Structure (Ministry of Health, Labour and Welfare), the average age of employees in the financial sector is 41.3 years, which is slightly younger than the national average of 42.1 years. The length of service (tenure) of employees in the financial sector is 13.6 years, which is longer than the national average of 12.1 years. In the financial sector, the average annual earnings, including bonus payments, are 6,145,000 yen, which is higher than the national average of 4,797,000 yen. While the ratio of university graduates is 0.34 in the whole sector, it is 0.63 in the financial sector, which is one of the reasons for the higher annual earnings.

A regulatory authority of financial institutions in Japan is the Financial Services Agency (FSA). The FSA supervises banks and conducts inspections. The Bank of Japan (BOJ) also conducts onsite examinations of commercial banks as part of its prudence policy to maintain the stability of the financial system.

2. Recent developments following the 2008 global financial crisis

2.1. Impact of the global financial crisis

The 2008 global financial crisis had a relatively minimal impact on Japan’s banking sector compared with other developed countries. According to the IMF’s estimation in April 2009, Japan’s expected loss from the crisis was $149 billion or 2 percent of outstanding loans and securities. This loss was $2,700 billion or 10 percent for the United States and $1,200 billion or 5 percent for Europe.

As the OECD’s working paper (“Financial stability: overcoming the crisis and improving the efficiency of the banking sector in Japan,” No. 738, 2009) pointed out, the main reason for the limited impact on Japan was the relatively small risk exposure of Japanese banks given the following factors:
1) After the burst of the bubble economy, Japanese banks attempted to improve their balance sheets by increasing their capital and reducing non-performing loans. Consequently, Japanese financial institutions, including banks, were not inclined to the originate-to-distribute model and held only a small amount of subprime-related product.

2) In Japan, because the securitized product market was immature, the originate-to-distribute model did not prevail among Japanese financial institutions.

3) Many Japanese banks reduced the risks associated with mortgage loans and securitization to meet the Basel II requirement.

4) The Japanese economy did not experience a housing bubble in the 2000s.

5) The corporate governance and remuneration system in Japan, for which the total compensation is not closely linked to corporate performance, may have resulted in managers not taking higher risks to earn short-term profits.

In contrast, the negative impact of the crisis on the real economic activity was large in Japan. The annual growth of real GDP was −1.0 percent in 2008 and −5.5 percent in 2009, which were the largest declines among the United States (−0.3 and −2.8 percent), the United Kingdom (−0.8 and −5.2 percent), Germany (1.1 and −5.1 percent), and France (−0.1 and −3.1 percent). The larger impact on the Japanese real economy was primarily from a significant decline in exports: in 2009, Japanese exports fell by more than 24 percent from the previous year. Because exports accounted for approximately half of the economic growth in Japan, their decline following the global recession seriously damaged the Japanese real economy.

Consequently, from 2007 to 2009, the total employment in Japan fell by 520,000 (a 1.4 percent decrease) and the unemployment rate increased from 4.0 to 5.1 percent. Because the direct impact on the financial sector was limited, as previously stated, the total number of banks fell only slightly from 149 to 147 between 2007 and 2009 because of regional bank mergers. Furthermore, the financial sector experienced an increase in employment of 90,000 (7.1 percent) during the same period.

2.2. Policy responses after the financial crisis

To mitigate the negative impact of the crisis and to improve the economy, the Japanese government implemented an aggressive fiscal policy with a more than 25-trillion-yen stimulation package, including government spending and tax cuts, in 2008 and 2009. The FSA also implemented many measures to stabilize the financial system. Such measures included stabilizing the stock market, injecting public capital into financial institutions, encouraging bank lending to small- and medium-sized firms, and relaxing capital adequacy requirements for banks.

In addition, the BOJ conducted massive monetary easing programs in 2008 and 2009. The bank increased the outright purchases of government bonds (JGBs). It also supported corporate financing by increasing purchases of CPs and providing unlimited funds to commercial banks, and resumed purchases of equities held by financial institutions in 2009. Furthermore, the BOJ started providing subordinated loans to commercial banks to strengthen their capital base.
Through these measures by the government and the BOJ, Japanese real GDP recovered from the crisis in 2010, showing the largest increase in growth among developed countries. From 2011, Japan experienced additional shocks from the earthquake in March 2011; thus, the pace of recovery slowed compared with that of other countries. However, from December 2012, new Prime Minister Abe launched a policy package called “Abenomics,” which consisted of fiscal expansion, monetary easing, and structural reform.

The fiscal stimulus amounted to more than 20 trillion yen, including direct government spending of 10.3 trillion yen. New Governor Kuroda of the BOJ conducted further monetary easing, called “Quantitative and Qualitative Monetary Easing,” and started targeting an inflation rate of 2 percent. Although a temporal downturn occurred from an increase in the consumption tax rate in April 2014, the Japanese economy has since been recovering from the crisis and is on its way to escaping from avoiding a long-lasting mild deflation under these policies.

2.3. Reforms and recent evaluations of the Japanese financial system

After the 2008 global financial crisis, Japanese banks and insurance companies continued to strengthen their capital positions and improve their risk management. In particular, the internationally active large banks started to implement Basel III from 2013 to increase capital adequacy and reduce their exposure to risk.

Consequently, according to the BOJ’s macro stress tests, the Japanese financial system is considered to have generally strong resilience against various economic and financial shocks at home and abroad. Although potential risks existed concerning the public sector’s significant indebtedness, the results of the IMF’s stress tests also implied overall resilience of Japanese financial institutions: banks’ profitability has improved although it remains below international standards, insurance companies meet their solvency requirements, and securities firms generally have adequate capital and strong liquidity buffers.

Therefore, Japanese financial institutions are expected to contribute to absorbing future adverse shocks and helping real economic activities recover from such shocks, as they did during the 2008 global financial crisis.

2.4. Overall trend in business and employment conditions in the financial sector

Figure 1 summarizes the overall trend in business and the employment conditions of the financial sector using the BOJ’s TANKAN survey (Short-term Economic Survey of Enterprises). Business conditions are measured using the diffusion index, which is compiled by subtracting the ratio of financial institutions reporting that business conditions are worse from that of institutions reporting that they have improved. This index indicates a sharp decline after the 2008 global financial crisis, but the beginning of a recovery as of 2009. The current index is at approximately the same level as it was during the first quarter of 2008. Employment conditions worsened during the crisis and then gradually improved until recently.
3. Recent trends in sectoral Social Dialogue and Collective Bargaining

3.1. Transition of revised wage rate in the financial sector

Japan’s financial sector has maintained a lower rate of wage revision than other sectors, as shown in Figure 2. In Figure 2, the rate of wage revision reflects the results of collective bargaining in each sector. Before and after the crisis, the financial sector maintained an approximate 1 percent wage revision, which was always lower than that of all sectors.

To avoid the increase in unemployment after the financial crisis, the government, management, and labour established the tripartite agreement for the realization of employment stability and job creation in March 2009. Specifically, the government, the Japan Business Federation (Nippon Keidanren), the Japan Chamber of Commerce and Industry, the National Federation of Small Business Associations, and the Japan Trade Union Confederation (JTUC-RENGO) agreed to cooperate with each other for job security instead of wage increase. It is understood that this cooperation was most evident in the financial sector. For example, only 32.4 percent of firms in the financial sector were faced with the union’s wage increase demand in wage negotiations in 2009, while 73.6 percent firms in other sectors, according to the Survey on Wage increase. In fact, the labor unions of two Japan’s mega-banks (Mizuho Bank and Sumitomo Mitsui Banking Corporation) made a demand for zero percent wage increase over the previous year in 2010. As a result, the banks accepted the union’s demand immediately on that day.

Therefore, the low revision rate can be interpreted as the financial sector’s dialogue and collective bargaining between labour and management possibly having prevented personnel costs from increasing and, thus, improved the profitability of financial institutions. This relationship may have contributed to a stable and resilient Japanese financial system from the 2000s.
Figure 2 also indicates that the rate of wage revision in the financial sector has recently increased to almost the same level as for other sectors. Under BOJ’s inflation targeting effort of 2 percent, the increasing trend of wages in the financial sector will assist in overcoming deflation as the income level increases.

**Figure 2. Rate of wage revision.**

![Diagram of rate of wage revision](image)

Source: Survey on Wage Increase (Ministry of Health, Labour and Welfare)

### 3.2. Wage curve trend in the financial sector

To counter globalization and an aging population, Japanese banks have also weakened the degree of their seniority wage systems for preventing personnel costs from escalating. Figure 3 indicates the recent trend in wage profiles in the banking sector and in all sectors. A review of Figure 3 indicates that in the banking sector and all sectors, relative wages for those in their late 30s and older decreased from 2004 to 2012, indicating that the wage profiles became less steep. This change is much more evident in the banking sector, indicating that Japanese banks have been decreasing personnel costs by maintaining lower wage revisions and by flattening wage profiles to manage environmental changes, such as globalization and an aging population.

This attitude of the financial sector is also observed in the ratio of managerial positions to total employees. According to the Employment Status Survey, the share of managerial staff in all sectors fell by 1.4 percent from 2007 to 2012. However, in the financial sector, this share fell more dramatically, by 2.2 percent during the same period. Because the wages of employees in managerial positions are relatively higher than those of other employees, a sharp reduction in the number of managerial staff could help financial institutions reduce their personnel costs.
4. Other issues in the Japanese labour market and the financial sector

4.1. Skill development policies

After the 2008 global financial crisis, firm-initiated skill development programs decreased in all industries, including the financial sector, as indicated in Figure 4. Figure 4 shows that the ratio of employees who participated in off-the-job training (Off-JT) programs declined from 2008 to 2010. These declines may reflect an attempt by firms to reduce personnel costs given the recession. Thus, the ratio slightly increased in 2014 during the recovery phase.

The possible change in the skill development policy in the financial sector is worth noting. Figure 4 also indicates that the share of Off-JT programs with more than 20 hours increased from 2010 in the financial sector but decreased in all industries. Together with the fact that the ratio of employees who attended the Off-JT program decreased significantly, one may interpret the increasing trend in longer training programs as financial institutions tending to select a limited number of employees and investing intensively to instill the necessary skills in those employees.

In this regard, the number of special and technical employees in the financial sectors also increased. According to the Employment Status Survey, the share of special and technical employees increased from 2.4 to 2.7 in the financial sector and from 1.5 to 1.6 in all industries. These changes may indicate that financial institutions are managing the rapid technical progress and increased global competition by increasing the number of employees with professional skills and knowledge.
4.2. Female employment

Faced with a future labour shortage in a super-aged society, significant attention has been paid to the female labour force in Japan’s labour market. The government initiated a campaign to encourage more firms to employ and promote more female workers. In this regard, the financial sector utilizes a labour force with a higher number of women relative to other sectors: the female employee ratio is 0.54 in the financial sector and 0.45 in all sectors, according to the Labour Force Survey in March 2015. Within the financial sector, insurance companies have a high female employee ratio of 0.62 whereas banks have 0.52. Most females in the financial sector work as clerical (67.1 percent) and sales workers (30.4 percent), while less than 1 percent females work as administrative and managerial or special and technical workers.

In Figure 5, the ratio of female employees (regular and non-regular employees) is plotted across age groups. For the financial sector, more than half of the employees are female and most of those under the age of 34 years are employed as regular workers. However, in the 35–44 age group, the ratio of female regular employees declines drastically, although the ratios for regular and non-regular employment are higher than those of all sectors. In the financial sector, the ratio continues to decline to 0.47 in the 45–54 age group, becoming almost equal to that of all sectors.

Considering the fact that the average childbearing age of Japanese women is their early 30s, the decline in female regular employment in the 35–44 age group is likely the result of turnover of female employees for maternity reasons. Women who work in the financial sector typically leave their firms to have children and then return to the labour market as non-regular employees as their children grow up. This pattern was more evident in March 2010 as the ratio of female employees was 0.62 for 25–34 age group, 0.50 for 35–44, and 0.42 for 45–54 (it is 0.63, 0.59, and 0.47 in March 2015 as shown in Figure 5). However, Figure 5 shows that there are still large potential female workers to be promoted in the financial sector. Therefore, to encourage more women to become employees, financial institutions may need to take necessary measures and practices for female workers to continue their jobs at firms even after their maternity and childcare leave. Alternatively, firms may need to employ women as regular workers when they return to the labour market.
4.3. Work–life balance and human resource management practices

One reason for the lower number of female regular employees beyond the mid-30s age group is the long working hour practices prevalent in Japanese firms, including financial institutions. Figure 6 provides a plot of work hour distributions in the financial sector and indicates that approximately 50 percent of male employees work more than 180 hours a month, and approximately 30 percent work more than 200 hours. In contrast, approximately 20 percent of female workers work more than 180 hours a month, whereas many of them work less than 140 hours a month, possibly as non-regular workers.

The differences in the work hour distributions in Figure 6 can be interpreted as many women avoiding work as regular employees because they must work very long hours to compete with colleagues in a typical Japanese financial institution, where long working hours are the norm. To utilize women’s abilities and skills in the workplace, reforming traditional work practices and the environment are important to enable employees who work fewer work hours to produce more value-added financial services. In a workplace in which employees are assessed on the basis of their ability and outcome and not on the number of hours worked, financial institutions can promote more talented and skilled employees regardless of gender.
4.4. Mental health issues of employees in the financial sector

Employees’ mental health problems are also important issues for labour–management relations in Japan’s financial sector. The number of workers with a mental disorder is increasing in Japan, and the number of establishments facing this problem is relatively high and increasing in the financial sector. Figure 7 indicates that mental disorders prevail more in the financial sector than in other sectors, except for the energy and IT sectors. Furthermore, the share of establishments with employees who were absent or resigned increased by 3.3 percent between 2007 and 2012, the largest increase among all sectors.

Recent studies by the OECD and the European Agency for Safety and Health at Work pointed out the importance of normal workplace practices, including better working conditions and sound management practices, to reduce job strain and to prevent the mental ill health of workers. For firms employing many workers for long periods, such as Japanese financial institutions, the cost of the mental ill health of their employees could become large. Therefore, labour and management should intensively discuss the issue, particularly regarding how to manage the problem of mental ill health related to work–life balance issues.
Figure 7. Share of establishments with employees absent from work for more than a month or who resigned because of mental disorders

Source: Survey on State of Employees’ Health (Ministry of Health, Labour and Welfare)