

Reorganization of Japanese agricultural cooperatives' branch network: responding to changing local needs and strengthening interactions with members

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■ Abstract

Financial institutions, which have relatively been inactive in reorganizing their branch network after 2010, are seen increasing mergers and closures of their branches again in recent years in Japan. This is mainly because the use of financial institutions' branches is declining due to the spread of online banking services and the shrinking customer base along with predicted depopulation. Financial institutions are also facing the need to step up streamlining of branches to cope with revenue decrease, as well as increasing the size and operational efficiency of branches to respond to customer demand for higher levels of service such as advisory services.

The situation is even severer for agricultural cooperatives (JAs), as their branches are smaller in size compared to branches of other financial institutions. Also, many of them have not been renovated for a long time, and they appear not to be dealing with changes in the surrounding environment. The key to successful reorganizing of the branches is to build a consensus among the members because agricultural cooperative's branches are also used as a place for members to conduct various activities.

Cases of reorganization at four agricultural cooperatives shown in this paper indicate the importance of sharing the challenges of their branches with the members. And at the renewed branch strengthening the role as a base for branch activities, etc. with considering the accessibility of renewed branches' area members, suggests possibility to shorten the relation and distance to the region area.

■ Introduction

Financial institutions' branches function as the most fundamental channel linking customers and the institutions. Customers use the branches for a variety of reasons, ranging from cash deposits, withdrawals and transfers, and balance inquiries to receiving advice on loans and asset management. Amid advancing digitization of financial services, however, fewer people use the branches for basic financial transactions, and now that the population of potential customers itself is on a declining trend, more financial institutions are setting on reorganizing their branch network.

Compared with branches of other financial institutions, JAs' branches are small and tend to be old. Many JAs might need to reorganize their branches, but there are fears that the reorganization could make JA less convenient for their members. Since the branches also function as bases for members to conduct various activities, the key to successful reorganizing is to build a consensus among the members.

This paper first discusses major factors behind financial institutions' reorganization of branches. Then the paper will describe the situation unique to JAs' branches and consider key points for reorganization through analyzing the cases of four JAs which have completed or are going through shakeups of their branch network.

1. Trends regarding financial institutions' branch network

1.1 Number of branches by types of financial institutions

First of all, let us compare different types of financial institutions based on the number of branches. Table 1 shows the number of branches between fiscal 2003 and 2017 by types of financial institutions.

Table 1 Financial institutions' branches

End of fiscal	The number of headquarters, branches and sub-branches					Index (Fiscal 2003 = 100)				
	City Banks*1	Regional Banks and Regional Banks II	Shinkin Banks (Credit Associations)	Shinkumi Banks (Credit Cooperatives)	Agricultural Cooperatives(JAs)*2	City Banks*1	Regional Banks and Regional Banks II	Shinkin Banks (Credit Associations)	Shinkumi Banks (Credit Cooperatives)	Agricultural Cooperatives(JAs)*2
2003	2,154	11,374	8,263	1,985	13,415	100.0	100.0	100.0	100.0	100.0
2004	2,111	11,088	8,059	1,955	12,875	98.0	97.5	97.5	98.5	96.0
2005	2,063	10,888	7,879	1,922	12,154	95.8	95.7	95.4	96.8	90.6
2006	1,954	10,782	7,777	1,901	11,521	90.7	94.8	94.1	95.8	85.9
2007	1,922	10,695	7,734	1,858	10,418	89.2	94.0	93.6	93.6	77.7
2008	1,962	10,694	7,687	1,826	9,780	91.1	94.0	93.0	92.0	72.9
2009	1,972	10,694	7,671	1,785	9,198	91.6	94.0	92.8	89.9	68.6
2010	1,990	10,655	7,619	1,765	8,901	92.4	93.7	92.2	88.9	66.4
2011	2,003	10,616	7,584	1,755	8,995	93.0	93.3	91.8	88.4	67.1
2012	2,010	10,617	7,535	1,737	8,708	93.3	93.3	91.2	87.5	64.9
2013	2,020	10,575	7,504	1,723	8,650	93.8	93.0	90.8	86.8	64.5
2014	2,026	10,558	7,451	1,718	8,628	94.1	92.8	90.2	86.5	64.3
2015	2,037	10,548	7,398	1,709	8,464	94.6	92.7	89.5	86.1	63.1
2016	2,044	10,546	7,379	1,695	8,314	94.9	92.7	89.3	85.4	62.0
2017	2,043	10,519	7,361	1,679	8,131	94.8	92.5	89.1	84.6	60.6

Sources: The Japanese Bankers Association. *Analysis of Financial Statements of All Banks* [Original; 全国銀行財務諸表分析], Shinkin Central Bank Research Institute, *Statistics of Shinkin Banks* [Original; 信用金庫統計], The National Central Society of Credit Cooperatives, *Overview of credit cooperatives' deposits, loans, etc.* [Original; 全国信用組合預金・貸出金状況], The Ministry of Agriculture, Forestry and Fisheries. *Statistics On Agricultural Cooperatives* [Original; 総合農協統計表]

NOTE 1: The number of sub-branches is excluded from the figures for City Banks because the number rose sharply in a certain year due to acquisition of consumer finance company.

NOTE 2: Figures for agricultural cooperatives (JAs) only include branches that offer financial services. The figures represent the total of numbers reported by each JAs at the end of its business year.

JAs marked the largest decline in the number of branches among the financial institutions during the period. The number of JA branches in the end of fiscal 2017 dropped by nearly 40 percent compared with the end of fiscal 2003. The decline was especially huge in the first seven years between fiscal 2003 and 2010, decreasing by more than 30 percent amid an increase in mergers of branches. The trend continued after 2010, but at a slower pace.

The number of branches dropped for other financial institutions, but not as quickly as JAs. The number of Shinkumi Banks(Credit Cooperatives)' branches showed the second largest drop, declining by 15 percent during the period, followed by that of Shinkin Banks(Credit Associations) which decreased by 10 percent.

As for regional banks (NOTE 1), which tend to reorganize branches when they merge to avoid overlaps in business territories, the number of branches dropped by only 7.5 percent during the period. This is probably because they are also opening new branches mainly in urban areas. In some cases, although not many, branches are closed but are treated as relocation to other branches.

In general, the pace of reorganization has been slower in recent years. The drop in the number of JA branches was large before fiscal 2010, but the trend slowed down since then.

NOTE 1: There are two types of regional banks, one is a member of the Regional Banks Association of Japan (Regional Bank) and the other is a member of the Second Association of Regional Banks(Regional Bank II). In this paper, the term “regional banks” includes both types.

Table 2 Deposits at financial institutions per branch

End of fiscal	Amount of deposits per branch(100 million yen)					Index (Fiscal 2003 = 100)				
	City Banks*1	Regional Banks and Regional Banks II	Shinkin Banks (Credit Associations)	Shinkumi Banks (Credit Cooperatives)	Agri-cultural Cooperatives(JAs)*2	City Banks*1	Regional Banks and Regional Banks II	Shinkin Banks (Credit Associations)	Shinkumi Banks (Credit Cooperatives)	Agri-cultural Cooperatives(JAs)*2
2003	1,152	209	125	75	56	100.0	100.0	100.0	100.0	100.0
2004	1,216	215	131	78	59	105.6	102.7	104.5	104.4	106.3
2005	1,259	222	136	81	64	109.3	106.3	108.8	108.7	115.1
2006	1,360	226	140	84	69	118.0	107.9	112.1	112.2	123.3
2007	1,391	233	144	86	77	120.7	111.2	114.9	115.7	138.5
2008	1,380	235	148	89	84	119.8	112.5	118.1	119.7	150.9
2009	1,387	240	151	92	91	120.4	114.8	120.1	122.7	163.0
2010	1,401	248	154	95	95	121.6	118.6	122.9	126.8	170.8
2011	1,441	255	158	98	96	125.1	121.7	126.0	131.2	171.6
2012	1,449	264	163	102	102	125.8	126.4	129.8	136.9	182.2
2013	1,519	273	166	106	104	131.8	130.5	132.8	141.9	186.9
2014	1,591	282	172	109	106	138.1	134.8	137.1	145.4	191.0
2015	1,684	291	178	112	111	146.1	139.2	142.3	150.4	199.2
2016	1,791	297	183	115	116	155.5	142.0	145.7	154.4	207.6
2017	1,909	305	187	119	121	165.7	145.8	149.5	158.9	217.8

Sources: Refer to Table 1.

NOTE 1: Refer to Table 1.

NOTE 2: Refer to Table 1.

1.2 Size of branches by types of financial institutions

Secondly, let us look at the changes in the amount of deposits per branch by types of financial institutions. Table 2 shows that City Banks have the largest amount of deposits per branch between the end of fiscal 2003 and the end of fiscal 2017. Small-size sub-branches which offer limited services are not included in the statistics for City Banks, but since the number of sub-branches is only about 20 percent of the total number of branches, City Banks are still ranked top even if their sub-branches are taken into account.

The amount of deposits per branch for City Banks expanded by more than 60 percent during the period, but since the number of branches hasn't changed largely, the increase in per-branch deposits is mostly attributable to a rise in actual deposits.

Meanwhile, the amount of deposits per branch for Regional Banks, Regional Banks II, Shinkin Banks (Credit Association) and Shinkumi Banks (Credit Cooperatives) rose roughly 1.5 times during the period.

JAs' amount of deposits per branch showed the largest increase among financial institutions, jumping more than twofold by the end of fiscal 2017. This is due to an increase in the amount of deposits and a large drop in the number of branches. Still, the amount of deposits per branch is small compared with other financial institutions.

2 Factors behind recent reorganization of branches

2.1 Active reorganization of branches

Financial institutions have been inactive in reorganizing their branches in general, but they appear to have become willing to merge and close their branches again since fiscal 2017. Especially, City Banks are attracting attention as they plan to largely reduce their branches after not having made much changes in the number of branches for more than a decade.

For instance, Mizuho Financial Group, Inc. plans to reduce the number of its domestic branches by 100 - which is equivalent to 20 percent of the total - by fiscal 2024, as well as improving branch productivity by utilizing video calls and self-service machines. Mizuho also hopes to merge branches of its bank, trust bank and securities firm so that they can jointly conduct sales activities as a group.

Mitsubishi UFJ Financial Group, Inc. announced that it will reduce the number of its branches by 20 percent between fiscal 2017 and fiscal 2023 and halve the number of branches with teller counters by shifting to self-service branches.

Reorganization of branches are happening not only at City Banks but also at regional financial institutions for a number of reasons.

2.2 Spread of new channels

The biggest reason why City Banks are reorganizing their branch network is the change in customers' needs along with the progress in digitization. According to the Ministry of Internal Affairs and Communications' 2017 survey on the use of communication devices, more than 75 percent of respondents said they used the internet in the past year and more than 60 percent said they possess smartphones. This means users of financial institutions are becoming more familiar with digital channels including internet banking and mobile banking, and fewer users visit banks for simple transactions such as balance inquiries and money transfers.

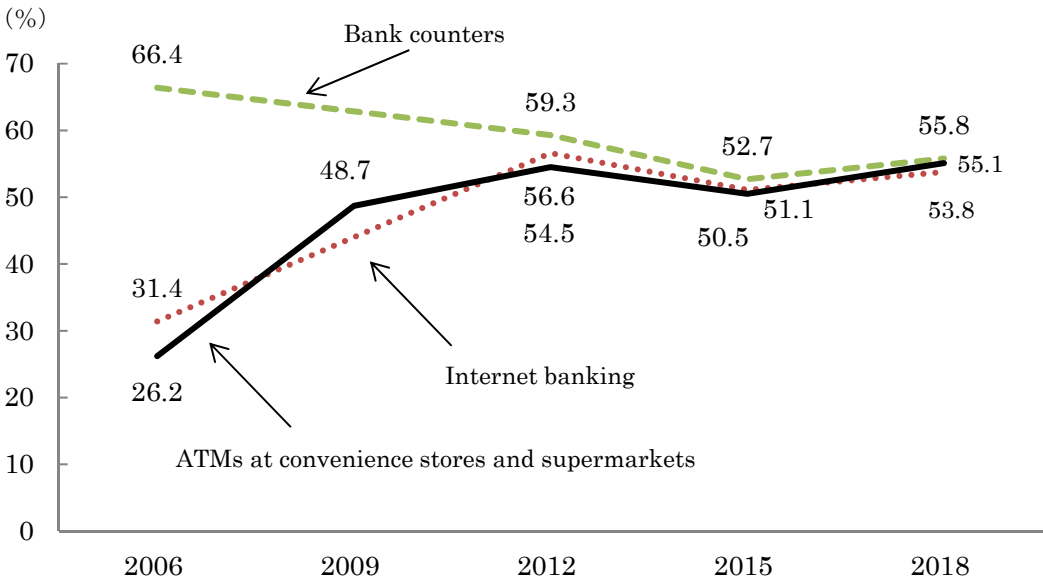
Financial institutions are strengthening their digital services to respond to users' demand, which encourages users to turn even more to online services. More financial institutions have stopped issuing paper passbooks and ask users to make balance inquiries and check transaction records online. More of them let people open bank accounts while at home by using a smartphone app to take a picture of identity verification documents such as a driver's license and send it.

Some startups have started offering new services which can be used only through digital channels – personal financial management services that pull banking data from multiple sources to give customers a view of their online financial transactions.

The Japanese Bankers Association’s survey shows that the percentage of people who visit bank counters twice or more in a year was 66.4 percent in 2006, but the ratio dropped to 55.8 percent in 2018. Meanwhile, the percentage of those who use internet banking twice or more in a year rose from 31.4 percent in 2006 to 53.8 percent in 2018. The gap in the ratios shrank from 35 percentage points in 2006 to only 2 percentage points in 2018.

Moreover, the use of ATMs at convenience stores and train stations are increasing, as seen in Figure 1. Such ATMs are set up by companies other than the traditional financial institutions, such as banks established by convenience store chain operators or their subsidiaries specializing in ATM services.

Figure 1 Ratio of the use of banks according to different channels



Source: The Japanese Bankers’ Association. *Report: Questionnaire for creating a better bank* [Original: よりよい銀行づくりのためのアンケート]

Note: The figures show the percentages of people who use each channel at least twice a year. There are slight differences in the content of the questions depending on the year. In particular, ‘Internet banking’ in 2018 asks questions by instrument such as PCs, smartphones, tablets, etc. respectively, and the figure is total sums of each.

Since ATMs are installed at most convenience stores, people no longer have to go to financial institutions to withdraw money. And as the government is promoting cashless payments, chances for people to visit such institutions for cash withdrawals are likely to decline further.

2.3 Shift in focus regarding retail financial services

While chances for people to visit financial institutions for simple, daily transactions are believed to decrease with the spread of new channels, financial institutions’ role of offering advisory services for loans and asset management will certainly remain. The aging of society will also increase the need for financial institutions to conduct counseling services for elderly users. Thus, financial institutions’ branches are most likely to put more focus

on advisory services.

The branches also work as a base for sales staff who visit customers. Recently, more financial institutions are focusing on promoting investment products, loans and insurances that meet the different needs of customers with varying life plans, life stages and preferences. This strategy marks a major shift from the traditional way of selling what they want to sell at their own timing, and it has become more important than ever to nurture sales officers.

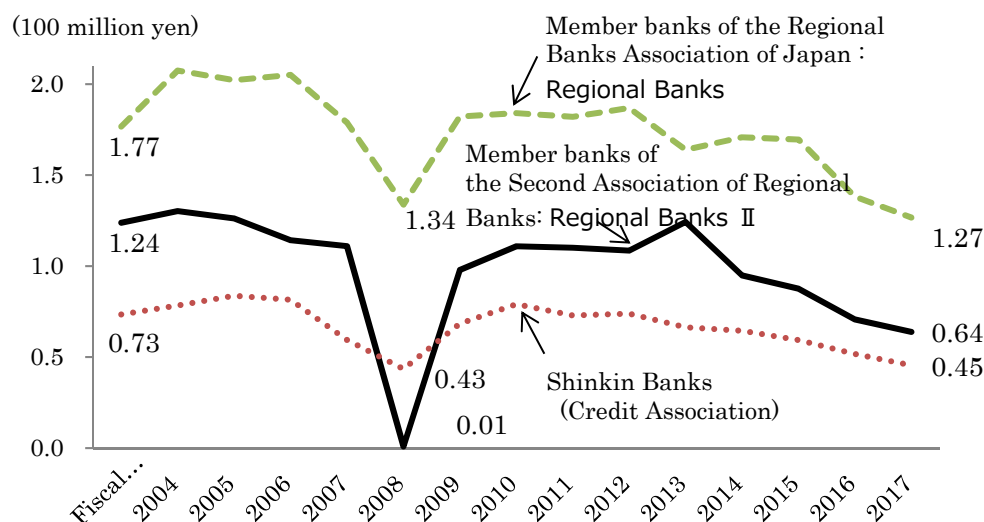
It is also necessary to have personnel who can deal with compliance issues and changes in financial regulations.

As more focus is placed on businesses that require relatively higher expertise, financial institutions need to secure human resources with skills to deal with such tasks, and in order to do so, they must improve work efficiency at branches. At the same time, they have to expand the organizational structure of branches to nurture and support their employees, which indicates the need for them to merge branches for higher efficiency and economies of scale.

2.4 Decline in net business profits

Figure 2 shows regional financial institutions' net business profit per branch. Net business profit is calculated by deducting expenses from incomes related to core banking business, including lending operations, as well as securities and foreign exchange transactions.

Figure 2 Regional financial institutions' net business profit per branch



Sources: The Japanese Bankers' Association; Shinkin Central Bank Research Institute (Refer to Table 1 for number of branches).

Note: The figures are calculated by dividing the net business profit for a fiscal year by the number of branches as of the end of the previous fiscal year.

Regional banks' net business profit per branch marked 177 million yen in fiscal 2003 and has maintained a declining trend since then. It posted 127 million yen in fiscal 2017, lower than the level marked in fiscal 2008 during the global financial crisis. Similar trend is seen for Shinkin Banks. As for Regional Banks II, net business profit per branch in fiscal 2017 was the lowest since fiscal 2003 except for fiscal 2008 when the profit plummeted.

The reason why their net business profits are decreasing despite an increase in the amount of deposits per branch is mainly because of low interest rates. Regional financial institutions are trying to cover low interest rates by expanding the amount of loans, but due to intensifying competition especially in metropolitan areas with high demand, yields are pushed down further, making it increasingly difficult for financial institutions to make profits through loans. The situation has prompted financial institutions to merge and close branches as part of streamlining efforts.

Sluggish profits amid low interest rates are also pressuring JAs to reorganize their branches, as will be described in detail later.

2.5 Population trends

Population trends are another factor leading to reorganization of branches. The National Institute of Population and Social Security Research forecasts that the number of households in 2040 will drop by 5 percent from 2015, and the overall population will decline by 10 to 15 percent.

Horie (2015) points out that regarding the impact of population decline on financial institutions, JAs are most severely affected. Horie (2015) uses data on locations of financial institutions and their branches nationwide and calculates a weighted average of municipalities' population changes by the number of headquarters and branches to estimate the average change in population per branch territory according to different types of financial institutions.

The estimates show that the population in JAs' business territories is predicted to shrink by 25.4 percent between 2010 and 2040. The expected decline is the largest among financial institutions, even larger than the projected drop of 24.1 percent for the population in business territories of post offices, which have many branches in rural areas like JAs.

Uchida (2006) points out that there is a negative correlation between the advance in population decline and JAs' financial indicators. The larger the population decline rate in a cooperative's business territory becomes, the smaller the figures of its financial indicators – including the amount of savings and the long-term mutual insurance in force per member – get. This indicates that depopulation affects JAs' earnings forecast and thus their strategy for managing branches.

3. Characteristics of JAs' branches

Factors behind recent boost in reorganization of branches by financial institutions were discussed in the previous chapter. This chapter describes the unique characteristics of JAs' branches that need to be taken into account when working out branch strategies.

3.1 Small-size branches

Table 3 shows the average size of financial institutions' branches measured by the number of staff per branch.

In terms of the number of staff, the size of City Banks' branches is the largest, and those of Regional Banks, Regional Banks II and Shinkin Banks (Credit Associations) are a little less than half the size of City Bank branches. The size of Shinkumi banks' (Credit Cooperatives') branches is a little less than one-third. JAs' branches are about the same as Shinkumi banks' branches in terms of the amount of deposits, but half the size in terms of the number of staff.

Considering that other financial institutions conduct over-the-counter sales of insurance products at their branches, the number of employees at JAs' branches engaging in mutual insurance services can be included as staff, making the size about the same as that of

Shinkumi Banks. However, JAs' staff engaging in mutual insurance business include not only staff at the counter but also staff who visit members' homes and offer a variety of services in addition to selling insurance products. Taking the situation into account, it is more or less appropriate to say that JAs' branches are small-sized.

Table 3 Financial institutions' number of employees per branch
: as of the end of March 2017

City Banks*1	Regional Banks and Regional Banks II	Shinkin Banks (Credit Associations)	Shinkumi Banks (Credit Cooperatives)	Agricultural Cooperatives(JAs)*2	Agricultural cooperatives (employees engaging in banking and mutual insurance services)
36.4	16.7	14.6	11.4	6.8	11.5

Sources: Refer to Table 1.

NOTE 1: Refer to Table 1.

NOTE 2: Refer to Table 1.

Branches with a limited number of staff have difficulty creating an organizational structure that corresponds to members' needs for higher-level, more specialized services. They also have security concerns. Many JAs must be feeling the need to make their branches bigger by merging them.

3.2 Aging facilities

According to Odaka (2018), the aging ratio of JAs' facilities – the accumulated depreciation to fixed assets ratio – reached 71.4 percent in fiscal 2016. Fixed assets balances are reported using acquisition costs, but in cases when the value of a fixed asset is impaired, the ratio is calculated after excluding it from acquisition costs.

The ratio was much higher than 54.3 percent for fiscal 1990, suggesting that their fixed assets, including buildings and other equipment, are aging. While the number of elderly members is increasing, old facilities tend to be not barrier-free and not elderly-friendly. The facilities need to be replaced also because they are believed not to have comfortable lobbies or sufficient space to offer individual advisory services.

3.3 Locations

As for aging branches, there are cases where sufficient measures are not taken to respond to changes in population distribution and transportation conditions.

At the national level, it is often said that population is concentrating in metropolitan areas such as Tokyo and Osaka. A similar trend is seen at prefectural and municipal levels, with more people moving to urban areas. There are cases where a new road is built, creating a change in traffic flow. In many areas, farmlands are consolidated to be managed by large-scale farmers. If the location of branches has not been revised for a long time, there is a high possibility that they need to be relocated to correspond to changes in the communities.

3.4 Activities hub for cooperative members

In addition to offering financial and insurance services, one unique characteristic of JA branches is to function as a store, support center for farmers and activities hub for its members. Especially in recent years, the JAs are promoting activities to support the communities and conducting joint programs among different branches.

When JAs consider reorganizing their branches, they must take into consideration that branch network restructuring leads to a decline in the number of branches and could result in less communication between cooperatives and their members or local residents.

3.5 JAs as cooperative financial institutions

Because banks are corporations owned by investors, they can conduct reorganization based on their own decisions. Meanwhile, JAs are cooperative financial institutions owned by their members, which means building consensus among members is the key to reorganization.

In the next chapter, based on interviews I conducted, I will look at actual cases of JAs which reorganized its branches and how they sought solutions to various challenges.

4. JA Oura Tatebayashi – improving efficiency of branch operations and strengthening in-person visits to members

4.1 Coping with aging branches following merger

JA Oura Tatebayashi is an agricultural cooperative whose business territory is the southeastern part of Gunma Prefecture – the city of Tatebayashi and the towns of Itakura, Meiwa, Oura, Chiyoda and Oizumi. It was created in March 2009 as a result of a merger of three JAs.

Aging branches have been an issue since the merger. Some of the buildings were nearly 50 years old, imposing heavy maintenance costs on the JA. There was also a need to make its facilities barrier-free in order to respond to the aging of its members and users.

In addition, with the expected increase of members and users having difficulty coming to the branches, the JA had to expand the number of staff visiting members at their homes, but small branches covering a limited business area did not have sufficient human resources to do so. Reorganization of branches at the JA started in response to such concerns.

4.2 Reorganizing branches under newly set sales territories

Prior to the reorganization, the JA had 22 branches, out of which 20 handled banking, insurance and farming support businesses while two offered only banking and insurance services.

After consideration, the JA came up with a plan to reorganize them into 10 branches offering banking and insurance services and four branches that provide support for farmers. The two types of branches are operated under different business strategies, but this paper will describe the strategy for branches offering banking and insurance services.

The reorganization first started with dividing sales territories into 10 districts, taking into account the number of members and the amount of tasks. Specifically, the city of Tatebayashi was divided into five districts and the remaining territories were split into five along the town borders. Under the reorganization plan, new branches offering banking and insurance services were to be set up roughly at the center of each district, near public facilities so that they would be easily accessible. Two of the existing branches would remain as they are located near the center of their districts, but eight others would be built on newly acquired pieces of land.

The cooperative offered detailed explanation of the plan to its members and other users. It held meetings with heads of producers' groups, as well as women members, young members and product grading and shipment associations. The plan was proposed and approved at an extraordinary assembly of the representatives of JA members in December 2014.

To make it easier for people to understand the reorganization plan, the cooperative handed out at the meetings colored leaflets describing the aim of reorganization, which is to “create self-sustaining, capable and member-friendly branches” and to work on providing high-quality services to JA members and other users.

The JA stressed the need to reorganize its branch network by explaining that sales territories of the existing branches were too small, and by providing data on the aging of their facilities and members. It also showed a map of the new 10 districts with descriptions.

4.3 Increasing work efficiency and improving communications with members

The reorganization began in fiscal 2015 as a six-year project. New branches have been built in areas where land acquisitions were completed, and two branches have begun operation as of December 2018 when interviews were conducted. New branches are brighter, more spacious, and are made barrier-free.

Work efficiency is improved as each branch became larger in size due to mergers, and thanks to the introduction of online tellers machine (OTM) and an open teller system. The number of staff members visiting users' homes was increased, strengthening communication with JA members and users as a result. Especially popular is the system of staff members visiting users' homes after receiving request calls. By having more employees per branch, it became possible to train young workers effectively.

Another advantage of merging branches is an increase in chances to organize and promote different kinds of events for local residents, such as a sweets making class by the JA's women members, a Christmas wreath making class and a sales fair of pears. Branches have also made more efforts to make the floor comfortable for users, such as putting up Christmas decorations.

As a result of such moves, a questionnaire conducted on JA members living in districts covered by the two newly built branches six months after they opened showed that more than 80 percent said they highly evaluate the new branches. The number of new non-member customers is also increasing.

5. JA Ohmifuji – increasing contacts with users

5.1 Deciding to reorganize branches to respond to users' changing needs

JA Ohmifuji is an agricultural cooperative covering the cities of Moriyama and Yasu in Shiga Prefecture. It was created in 1997 by merging three JAs. Prior to reorganization, the JA had 15 branches and a sub-branch.

The JA first conducted branch consolidation in 2007. Leaders of the JA's members in the area started discussions on the plan in 2005 and two branches and a sub-branch were merged in 2007.

The JA's management committee continued discussions on the issue and concluded that further reorganization is necessary to increase the size of each branch to respond to diversifying needs of JA members, maintain sound management and update aging facilities.

In fiscal 2013, a plan to reorganize 13 branches into six was proposed and approved at the general assembly of the representatives of JA members. The new six branches would specialize in banking and insurance services, and the farming support business was integrated into a regional farming support center, taking into account progress in

consolidation of farmland to motivated entities including large-scale farmers.

5.2 Increased understanding among JA members on the need for reorganization

The JA worked to build consensus among its members on the need to reorganize its branches to expand their size, improve their profitability and renew the aging facilities.

It made specific proposals such as the number of necessary branches after the members reached general consensus on the plan, and then went on to get an agreement from them on the locations of each of the new branches. Therefore, there was no persistent opposition to the plan.

Instead of proposing which branch should be closed, the JA took a strategic approach of asking for the most favorable way to create a new branch in each community, which apparently made it easier for members to participate in discussions.

At the time of the 2007 reorganization, many members felt a strong attachment to the branches they use, and there were relatively more voices of opposition toward having to go to branches further away from them.

In the reorganization conducted in 2013, members' agreement was obtained more smoothly thanks to step-by-step consensus building efforts, and likely because of changes in the members' awareness.

Many of the JA's members are part-time farmers who are also employed at companies, and they are familiar with business process reengineering and operational reforms. They understand the need for JAs to reorganize in order to respond to changes in needs of users and the situations of the communities.

5.3 Interactions with members rising despite decline in the number of branches

Among six branches planned to be reorganized, two new branches have already been built and another new branch is under construction. Compared with old branches, the new ones are larger and brighter, equipped with lounges and play spaces for kids.

As a result, the time each member spends at a branch increased, and more young people are visiting the branches. In areas where the reorganization is completed, the JA's interactions with users are on the rise.

New branches are working to increase visits to members' homes, organize events for people in the community and strengthen consulting services.

Specifically, branch staff are visiting JA members and other customers once a month to deepen ties with them. In this way, staff with expertise can respond to all initial inquiries and connect members to appropriate departments if further consulting is necessary. Training of personnel who can correspond to members' needs is also being conducted.

Moreover, the JA introduced a mobile banking vehicle in 2015 for elderly members who have trouble traveling a long distance to visit JA branches. It is also possible for a staff member to be at the vehicle to offer a variety of consulting services. Committees are set up at each branch to organize various events for the community such as summer festivals, harvest festivals and culture festivals, as well as other activities together with JA members.

6. JA Shinshu Ueda – planning branch reorganization as a comprehensive business entity

6.1 Grim prospect in financial business prompts reorganization

JA Shinshu Ueda, created in 1994 as a result of a merger, is an agricultural cooperative

covering the cities of Ueda and Tomi, the town of Nagawa and the village of Aoki in Nagano Prefecture. At the time of establishment, the JA had 36 branches and 7 sub-branches, totaling 43.

Immediately after the merger, the JA had a grim prospect for its future revenues in financial business. In 2013, the JA reviewed its balance of payments outlook and its branch network and concluded that branch reorganization is necessary. It set up a branch reorganization committee and closed the seven sub-branches and streamlined its branches in 2007. It created one main branch where many employees and tasks were concentrated, while introducing an online tellers machine (OTM) in other branches to improve operational efficiency and reducing the number of staff in such branches to a minimum of four.

Following the 2008 financial crisis, the JA again acknowledged the harsh business prospects and created a medium- to long-term management and financial plan. In the plan, the JA stressed its strategy of reorganizing the functions, roles and locations of its branches to expand investment in farming support business with the aim of strengthening this sector as well as its financial and mutual insurance businesses.

6.2 Careful process of reaching consensus on branch reorganization and the use of closed branches

The key point of the process involving branch reorganization that began in 2011 was that the JA carefully built consensus among both its executives and staff and its members. Especially concerning directors chosen for each district, the JA asked them to take part in meetings to discuss reorganization from an early stage.

As for branches which became subject to restructuring, although they will no longer have counters for banking and mutual insurance services, the JA decided not to sell the real estate and instead use them as community gathering spaces.

The actual discussions started in 2012 at board meetings and separately at a reorganization planning committee which includes representatives of each district. The committee decided the basic reorganization policy and further details were discussed at meetings held at each district. From the viewpoint of management streamlining, they decided not to newly build or renew branches. The reorganization plan was officially adopted at a board meeting in September 2014.

In November 2013, the JA started offering explanations to its members. Meetings were held 167 times to explain the plan to some 2,600 members. Numbers of branches with counters were revealed along with the plan to use the closed branches for community activities. Finally, in March 2015, the reorganization plan was proposed and approved at an extraordinary general meeting of representatives.

6.3 JA members of each district deciding how to use closed branches

The branch reorganization was implemented in September 2015, and counters were closed at 17 of the 36 branches. Automatic teller machines were set up at the 17 branches, with a JA staff member present at each of them to respond to inquiries.

Concerning the use of closed branches, the JA decided to concentrate on the support role and leave it to members of each district to come up with ways to utilize them, considering that the needs differ according to district.

Plans on how to utilize the spaces were mostly decided by January 2019 and some of them are already in use.

The Toyosato branch, one of such branches, cooperated with “Roman Ueda”, a nursing home for the elderly located inside the same building complex, and established a day care center for the elderly named “Hoden no Uchi” and a community lounge named “Hinata

Bocco Toyosato.”

Hinata Bocco Toyosato is run by a volunteer group supported by a local community development association, the JA’s women members and others. It has a café that offers meals and drinks, and a farmers’ market next to it. The place is used by local residents as well as JA members, and the number of visitors increased as a result compared with when it was offering financial services.

Branches which continue to offer financial services strengthened member visiting service to respond to the needs of those who used to go to the closed branches. They are also expanding cooperation with local communities, jointly organizing cleanup activities, food and agriculture education events for children, activities to preserve farm culture such as rice terraces and efforts to brand and promote local farm produce and so on.

After reorganization, branch heads were given a new title of “district project manager”, which contributed to raising the awareness that JA branches have a role in community building.

The JA has four business divisions – banking, mutual insurance, livelihood and health/welfare – all belonging to the community service headquarters. It plans to continue putting focus on cooperation among the divisions.

7. JA Wakayama – Strengthening financial and farming support services

JA Wakayama is an agricultural cooperative covering the city of Wakayama in Wakayama Prefecture. It was established in 1993 by merging six JAs, and it merged with another JA in 1999.

The JA started considering branch reorganization immediately after the first merger. Only the overview of the reorganization will be mentioned here because the details are discussed in TAKAYAMA (2017).

At that time, its branches were located alongside old streets which used to be the main streets when the branches were built. After new streets were constructed, the traffic on old streets dropped. Moreover, the branches were small in size, making it difficult for them to offer higher-quality services or respond to needs for farming support on weekends. It was also necessary to boost security measures.

To solve the issues, in 2008, the JA set on establishing farming support centers and reorganizing branch functions. It divided its business areas into five blocks and decided to set up one farming support center per block. The number and location of branches offering banking and mutual insurance services were discussed taking into consideration the amount of tasks, the number of members and whether staff visiting users’ homes can go around efficiently. The JA also decided to introduce OTMs and an open teller system at the branches.

The plan was explained to JA members at a meeting held at each district. The JA gained understanding of members by explaining that the establishment of a farming support center will provide higher-quality support, as well as services even on weekends, and that new branches will be set up at more accessible locations with more personnel who can visit users’ houses. The reorganization plan was also presented at a general meeting of representatives in 2009.

As of January 2019, reorganization is completed in four blocks, with completion at the last block in sight. As a result of reorganization, branches managed to streamline operations, enabling staff to focus more on visiting members’ homes. Visits to houses were increased, including weekend deliveries of farming materials, and such services are welcomed by users who live far away from branches.

8. What can be seen from branch reorganization cases?

The four cases of branch reorganization discussed above were all conducted to cope with such issues as the aging facilities, changes in the surrounding environment and the need to enhance business operations. Here are the key points in proceeding with reorganization.

8.1 Sharing problems within JA members

First and foremost, it is necessary for JA members to be on the same page about the problems regarding the existing branch network.

JA Oura Tatebayashi, JA Ohmifuji and JA Wakayama explained the problems to members and built consensus by convincing them that branch reorganization is necessary to solve those problems. JA Shinshu Ueda asked district representatives to take part in discussions on branch reorganization from an early stage.

If the issues concerning the branch network are shared in the beginning, it will become easier to gain understanding of those who will be disadvantaged by the reorganization. It is more likely that the discussions will proceed from a more positive standpoint of how branches can offer better services.

8.2 Measures to support members who have difficulty accessing branches

To help members who will have trouble visiting branches as a result of branch reorganization, especially elderly people who have difficulty traveling, the four JAs increased visits to members' homes.

JA Oura Tatebayashi's service of letting users request a visit by branch staff with just a phone call is proving popular, indicating an increasing need for such visits. This doesn't necessarily mean branch staff need to increase visits to all users. What is needed is a system to respond to the needs of users and JA members appropriately and in a timely manner.

JA Ohmifuji's policy of making staff who visit homes respond to initial inquiries is helping strengthen relationship between staff and members, making it possible for branches to prepare for future growth in needs for consulting services.

8.3 Becoming a base for community activities

Many financial institutions tend to conduct branch reorganization because of the declining need for over-the-counter services along with the changing lifestyle of users. But JAs' branches have roles other than offering financial services, and their significance as a gathering space for JA members and community members is increasing on the contrary.

This trend can be seen in the case of JA Oura Tatebayashi, which succeeded in increasing events held at new branches, and JA Ohmifuji which managed to increase interactions with its members and community at new branches. Branch reorganization involves reducing the number of branches, but if it results in improving operational efficiency, it will help boost contacts with JA members and other users.

JA Shinshu Ueda's case is another successful example of branch reorganization, in which the closed branches are utilized as a place for community events. The JA lets members and local residents plan and organize the activities and the JA concentrates on supporting them. By doing so, it managed to make use of closed branches at low cost.

■ Afterword

This paper discussed the situation behind financial institutions' recent reorganizations of their branch network and the key points JAs should take into account when they proceed

with branch reorganization. If branch reorganization is conducted to respond to changes in users' needs and the surrounding environment, it is believed to contribute not only to streamlining JAs' financial business but to strengthening relationship between the JAs and the community.

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