

The Norinchukin Bank: the Bank of change in the past, present, and future

The Bank celebrates its 100th anniversary in 2023.

Despite its unchanged position to support the agricultural, fishery and forestry (“AFF”) industries in Japan through finance as the central body for cooperatives, the roles of the Bank have continued to evolve.

How has the Bank changed and how will it change in the future?

KUNIYA Hiroko, a journalist, focusing her coverage on sustainability, spoke with OKU Kazuto, President and Chief Executive Officer, on his views and visions on the Bank’s transformation.

KUNIYA Hiroko



OKU Kazuto



KUNIYA Hiroko

Born in Osaka. Graduate of Brown University in the United States. From 1993 to 2016, she was the anchor of “Close-Up Gendai”, a prime-time current affairs program on Japan’s public television, NHK-TV, Japan Broadcasting Corporation. She is the National Goodwill Ambassador for Japan to the FAO, Food and Agriculture Organization of the United Nations.

OKU Kazuto

President & Chief Executive Officer since 2018.

Born in 1959 in Oita Prefecture. He joined The Norinchukin Bank in 1983 after graduating from the Faculty of Agriculture, University of Tokyo. He held various positions, including Managing Director in 2011 and Senior Managing Director in 2017, before assuming his current position in 2018.

KUNIYA: The Bank's business base is AFF industries and the Bank has a broad range of roles in Japan and abroad as a financial institution. Its role as institutional investor is significant by managing funds totaling ¥50 trillion. In the last few years, its businesses had to face sudden severe disruptions from the COVID-19 pandemic, the situation in Ukraine, global inflation and supply-chain disruptions. Has your perception and response to unexpected risks changed?

OKU: Profit comes after taking risks—That is a key business model for financial institutions. With the nature of risks changing considerably, our recognition of risks has also changed significantly. With greater uncertainty, especially given the worsening situation in Ukraine, we are facing the need to reevaluate various risks not only in the world and Japan but also surrounding the Bank.

Events once considered as tail-risk to global economy as a whole, such as a pandemic or a war, did actually emerge and affect prices, supply chains and even financial markets. In other words, we are observing the so-called butterfly effect—a butterfly's fluttering leading to a tornado at the opposite side of the Earth—not knowing the interconnectivity among events. I think we must be careful about this interconnectivity.

The recent situations have made us recognize the danger of excessive reliance to overseas food supply and the importance of maintaining domestic food supply to a certain extent from the perspective of food security. That is to raise the self-sufficiency ratio for food, maintain trade routes and increase food stockpiles so that we can avoid food shortages even if unexpected situations arise, maybe a war for example. Whilst all of these tasks are by nature closely related to the businesses of cooperatives and the Bank as a cooperative, I feel that our value has been crystalized through the recent situations.

KUNIYA: The business environment is changing considerably. As an investor, the Bank has offered high returns to people engaged in the AFF industries, but profit margins are declining generally throughout the financial industry. Which direction do you intend to pursue?

OKU: The Bank shifted to its globally diversified investment strategy 25 years ago in the period of declining profit margins amid the lowering domestic interest rate environment, in which it had earned mainly from domestic government bond investment. In the past 20 years, our investment business has been an important earnings pillar. But I feel an overreliance to a single business makes us difficult to cope with large crises in a resilient way. I have been aware of this limit but it urges me to further work on establishing second, third and even fourth profit-making sources.

The Bank's effort to support and change the AFF industries

KUNIYA: The Bank's business is not limited to investment. Since 2016, it has widened its portfolio to include the food and agriculture business on a full-fledged basis. What is your assessment of the results so far?

OKU: We are in the eighth year of this business focus. Metaphorically speaking, we are still at the early phase of cultivating right after the conversion of the wilderness to agricultural fields, and we are now starting to focus on furrowing and sowing.

The food and agriculture value chain is long, from production upstream to consumption downstream, extending to diverse industries over broad areas. In the past, we tended to focus on producers only. However, taking care of only the upstream does not lead to increasing income for producers. Income increase of producers cannot be achieved without understanding the precise needs and wants in the downstream, feeding them back to stakeholders in the upstream appropriately, and covering the midstream of processing and distribution in which the products from the upstream goes through the value chain. Our food and agriculture business is striving to complete this cycle.

KUNIYA: Russia's invasion of Ukraine exposed the vulnerability of Japan's low rate of food self-sufficiency. Increasing domestic production is an issue but the foundation of the country's AFF industries has weakened. Do you agree that raising the income of the producers is vital in reinforcing that foundation?

OKU: I agree. Considering the overall image of Japan's AFF industries, the core issue should be increasing the income of producers. Increasing their income leads to more new entrants and to enhancing the sustainability of the AFF industries.

Another important perspective is the demographic issue in Japan. We must cope with the decreasing trend of both producers and consumers in order to increase the income of producers.

As for the labor shortage, smartification and labor-saving by use of robots and AI are increasingly important. Within the Japan Agricultural Cooperatives (JA) Group, we set up the AgVenture Lab that aims to realize open innovation in the food and agriculture field, in order to support development of such technologies (see page 38).

As for the decline in domestic population and consumption, one solution is in the expansion of export. Many export promotion projects have been organized separately at prefectural level. We have supported many of them but feel the need for additional efforts on nation-wide or "All-Japan" promotion projects.



What is your assessment of the results of the food and agriculture business so far?



For example, suppose that we want to sell muscat in the overseas market. Rather than promoting individual prefecture brands separately with “Produced in XX Prefecture” taglines and sporadic sales opportunities, co-working among prefectures to relay marketing opportunities and form a long sequential supply period of muscats with “Produced in Japan” may enable stronger brand penetration to local distributors and/or consumers and increase sales volume. We could support such an export strategy by leveraging our food and agriculture business, based on local needs.

KUNIYA: In the agricultural sector for example, raising the income of the producers has historically been JA's principal role. If the Bank were to extend its task to this area, it would be necessary to restructure its organization and re-allocate its human resources.

OKU: That's right. In this case, we will not execute the process solely by ourselves but rather will undertake the initiative chiefly in cooperation with several cooperatives such as JAs and JA Shinnorens at the prefectural level.

KUNIYA: In the retail business, the organizational structure of JA Bank is a three-tiered structure. JA at the municipal level, JA Shinnoren at the prefectural level and the Norinchukin Bank at the national level, each taking their respective responsibilities. However, in regions where the population is declining, JA's business foundation is weakening. JA has also been criticized for its small amount of loans to producers. Is it the

Bank's strategy to review traditional ways of sharing responsibility?

OKU: It's true that JA Bank has long complied with this role-sharing strategy. However, given the rapidly changing need for and aspects of financial services, the importance of the Bank's precise collection of information and swift proposals, as well as of the provision of appropriate solutions, has risen increasingly.

Although it might be presumptuous to say so, I believe that the Bank has a supporting, perhaps even the leading, role in undertaking the future transformation of JA Bank and JF Marine Bank nationwide and, by extension, whole cooperatives.

KUNIYA: It sounds like the Bank is willing to assume a leadership role, at least in some form, in pursuing the forthcoming transformation. If so, it will be important to develop a corporate vision that can acquire a broad consensus.

OKU: The Bank is positioned as the central body for Japan's AFF industries, and I believe that the Bank points the way in three fields: providing the financial or community function to regions; offering food to consumers; and promoting measures to maintain or protect the global environment.

Of course, these initiatives cannot be undertaken only by the Bank. All of us including cooperatives throughout the nation are working on them. Although each cooperative is autonomous, all have the common basis of the AFF industries and share a history and relationships of providing value under the common goal of promoting the AFF industries through collaboration. I am confident that such a flat network, meaning an organization that is neither centralized nor top down, would be a strength of cooperatives supported by multiple stakeholders, which is clearly unlike corporations.

An opportunity for financial institutions: Green Transformation

KUNIYA: Ever since the SDGs were agreed upon at the United Nations, and the Paris Accord was adopted in 2015, the speed of change has been accelerating. Awareness is increasing that the environment and society are not sustainable, and the growing trend to review capitalism is pushing governments and corporations all around the world to change. In other words, awareness is spreading that “Business is no viable on a dead planet.”

OKU: This trend makes us aware that we should reflect on extreme capitalism concepts such as “all is well that profits now.” We all know resources are not infinite; we

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Taking care of only the upstream does not lead to increasing the income of producers



are required to sustain economic growth with reduced negative impact to human and natural resources. That's why the Green Transformation is occurring, and it could be a big opportunity to financial institutions.

KUNIYA: The world has been prioritizing the economy for a long time. As a result, the planet and our societies are strained. As awareness spreads globally, the values of "Economy First" are changing and this is already affecting European and American companies. Consequently, ESG, and sustainable finance and impact investments and loans are growing.

As an institutional investor, how has the Bank responded to such changes and how will the Bank address these changes going forward. I am aware that the Bank revised its Medium/Long Term Goals in 2023 to upgrade its sustainability management.

OKU: As you mentioned, we have started diverse initiatives in our three businesses (food and agriculture, retail, and investment), and the Bank itself focuses on reducing GHG emissions and raising the ratio of women in managerial positions.

As for sustainable finance, centering on the food and agriculture business and investment business, the Bank and its group companies engaged with the asset management business are proactively working on ESG investments and loans and/or impact investments. We aim to expand these investments and loans in target fields such as renewable energy and social infrastructure.

Sustainable finance produces new value

KUNIYA: In the Bank's Medium/Long-Term Goals, the target for executing new sustainable finance is set at ¥10 trillion by 2030. As of March 31, 2023, the cumulative amount of sustainable finance has been ¥4.4 trillion. Which sectors do you intend to focus with regard to sustainable finance?

OKU: Regarding sustainable finance, let me deviate a bit from the main topic. I consider the ideal Vision for the future Norinchukin Bank as being a "Blue-Green Bank."

KUNIYA: The vision is to become a Blue-Green Bank?

OKU: In this context, Blue symbolizes the sea while Green represents the mountains and the earth. Of course, the targets are not limited to this objective. I want to emphasize that the Bank should be a financial institution proactively engaged in investments and loans that contributes to ensuring a sustainable global environment and/or biodiversity. For example, think of an organization that would use a certain ratio of its assets under management as funds directed to such

investments and loans. I hope that we can convert conventional corporate loans into such funding through in-depth dialogue with our business partners.

KUNIYA: Food, generally has a "green" (environmentally friendly) image, but greenhouse gas emissions from the food system account for approximately 30% of worldwide GHG emissions. The system puts considerable burden on the planet. The Bank needs to increase investments and loans to the food system while at the same time pursuing decarbonization of the investees and borrowers. Another important issue is increasing the income of the producers. What do think will be key to assembling this complex puzzle?

OKU: It boils down to connecting unprecedented value and profit. Do we want products that are organically grown or domestically produced rather than imported? How can we make consumers understand the underlying value that exists in these differences? For example, for beef cattle grown with minimum environmental load versus those grown with a heavier burden on the environment, what price differential will consumers tolerate and accept as the difference in value? That is the question, I think. The responsibility for protecting the global environment has fallen on governments, local municipalities and/or companies but less so on individuals. How should we share with consumers' understanding of the new value in price differentials? I think this question poses the greatest hurdle for us.

KUNIYA Hiroko



OKU Kazuto



KUNIYA: In its effort to upgrade and pursue sustainable management, the Bank declared Net Zero by 2050*¹ and became a member of the Net Zero Banking Alliance (NZBA)*². The March 2023 announcement was a powerful message but there are high hurdles to overcome. In fact, there are many companies in Japan that are reluctant to pursue Net Zero. In Europe and in the United States, there is growing criticism against greenwashing, that actions taken towards net zero is only a pretense. The bold target of Net Zero that the Bank has set would not be achievable with the present initiatives. How determined are you?

OKU: Our March declaration is our determination and commitment that this should be the Bank's ideal vision, and that we need to reflect on how to realize that vision.

KUNIYA: The target is ambitious and worth high appraisal.

OKU: Honestly, we are still at the stage of accumulating our efforts. I love the words of Jules Verne: "Anything one man can imagine, other men can make real." and those of Friedrich von Schiller: "Genuine morality is preserved only in the school of adversity." I am confident that we can develop the pathway to achieve Net Zero.

We have already started several initiatives. These include support for maintaining forests and algae beds, which are large carbon sinks; measurements of CO₂ absorption volume by location; and support for the issuance of credits based on the measured results (refer to page 17). The creation of a credit, which sets a target for emission trading, could be a potential revenue source for fishermen and foresters. In agriculture, I plan to start an initiative to support the creation of credits, in collaboration with related corporations.

In Tottori Prefecture, to prevent purple sea urchins from eating seaweed, we are supporting the extermination and aquaculture farming of sea urchins. In sea urchins farming, we are exploring the possibilities of abandoned cabbage use to feed the sea urchins.

KUNIYA: Sea urchins eat cabbage?

OKU: Yes, they do! It seems that they eat it and grow well. This approach contributes not only to reducing food loss volume but also to ensuring CO₂ absorption.

Toward the model case of active female participation in the AFF industries

KUNIYA: The Purpose of the Bank begins with the words "dedicated to sustaining all life." It communicates the Bank's awareness that human beings, all living life, and the life of the planet are all connected.

This perception resonates with the SDGs' vision. I think the Bank is squarely addressing the global goals.

OKU: Both the Bank and the cooperatives have a high affinity with the SDGs. Nature and people are common prerequisites of the AFF industries. They form the basis of these industries. Accordingly, what we advocate by upholding the Purpose and the Mission was formerly just common sense for us. Therefore, we don't purposely inspire some new ideas, but awaken an awareness of "Yes, I remember formerly that's right." This might be the role of the Purpose and the Mission.

The SDGs include themes such as human rights and inclusion, and the importance of these themes is natural for the Bank, which is a member of a cooperative group that originated from mutual-aid activities. Perhaps the cooperative identity as a whole is very similar to SDGs.

KUNIYA: Gender equality is a very important goal. However, the percentage of women in management position at the Bank is quite low at 7.6% as of March 31, 2023. The Bank has set a target of 13% by 2030 and 30% by 2040. It appears to be a slow process.

OKU: We are currently promoting diverse measures to support the active participation and development of female employees, as well as raising the awareness of our directors and employees. Consequently, we expect the ratio to approach 9% in 2023. Even so, the pace has been slow, as you mentioned.

KUNIYA: I believe gender equality is especially important for the AFF industries. A study shows that there is co-relation between the level of gender equality and the ratio of women who return to their rural hometown after finishing their college education in urban areas. Women tend not to return to regions with low gender equality, and little opportunity to realize their personal objective and participate in decision making. If communities want to stop population decline, it is very important to realize gender equality. I hope the Bank becomes a model work place where women play an important role.

I have focused mainly on the reforms that the Bank is trying to pursue. With a 100-year history, there must be aspects that must not change. What would that be?

OKU: With reference to an adage of "FUEKI-RYUKO (immutability)," the unchangeable (FUEKI) portion refers to three constituent factors of the Bank, or 1) being a financial institution, 2) being the central body for cooperatives and 3) being an organization for the AFF industries. These factors must not change.

To put it another way, the Bank can change itself in whatever way according to environmental changes if the aforementioned factors don't change. I am confi-

dent that such accumulated changes will lead to our continuing evolution. Although the 100th anniversary is a key milestone, the Bank has experienced several critical junctures, including social, organizational and financial crises, and has overcome them by flexibly transforming itself every time.

What has enabled the Bank to overcome such crises is the powerful support by nationwide cooperatives or sometimes the adequate guidance of the administrative authorities. However, I'm confident that the greatest factor of our success and successive changes could be the sense of ownership among our employees in coping with these crises.

The Bank that must not change, and the Bank that must change itself

KUNIYA: What new role should the Bank undertake?

OKU: As I mentioned earlier, one of the key roles of the Bank is providing food to consumers. When we consider this theme over the long term, our thinking extends to the future of food. For example, how will our eating habits change in 2050? It might be commonplace for most people to eat organically grown food, or many people might take meals simply in the form of portable food stacked inside pockets.

The AFF industries could also have changed significantly amid such changes. As for agriculture, people might have a greater respect for the earth beyond the plants and foods that it provides. As the values that

have been nurtured in line with human evolution have come to be respected, the agriculture similar to that as an extension of today's agritourism might flourish.

Speaking of the financial sector, the shift to renewable energy source beyond of decarbonization might have become the significant theme, and investments and loans related to this theme open up the possibility of developing a big business. I want to see the Bank proactively address such challenging tasks in response to the changes in the AFF industries or the energy sector.

I hope that the current trend of population decline and depopulation in regions will be constrained by then, the community functions will be securely maintained and the Bank performs its roles there. That would be nice.

KUNIYA: Hearing your detailed views today, I have a better understanding of The Norinchukin Bank, which is often said to be difficult to comprehend. Thank you very much.

OKU: The pleasure is all mine.

*1 Net Zero by 2050: To restrict GHG emissions to Net Zero by 2050 for the Bank's investment and lending portfolios. Specific measures to achieve the target include "Reduce financed emissions," "Secure the amount of the forest carbon sink, together with JForest members," "Reduce GHG emissions by the Bank itself" and "Execute New Sustainable Finance."

*2 The Net Zero Banking Alliance (NZBA): The NZBA is a banking initiative led by the Initiative Finance - Programme Environment Nations Unis (UNEP FI). The UNEP FI framework was established in 2021 with 43 financial institutions worldwide to promote the reduction of GHG emissions. Net Zero GHG emissions are addressed through target setting and progress reporting.

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