



GOVERNMENT OF JAPAN

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Postal Privatization in Japan : Delivering Change

In October 2007, Japan Post was abolished and its three postal service operations, that is, Postal Service, Postal Savings (Yucho) and Postal Life Insurance (Kampo), became four business corporations, Japan Post Service, Japan Post Network, Japan Post Bank and Japan Post Insurance, which are fellow subsidiaries of their holding company, Japan Post Holdings. Consequently, each of these four companies has become able to avoid risk-transfer among them. At this stage, dramatic improvements have already been made in transparency in transactions and disclosure of company information. In addition, the Banking Law and the Insurance Business Law have been respectively applied to Japan Post Bank and Japan Post Insurance. These postal financial institutions are required to be privatized completely, through the disposal of their shares by Japan Post Holdings within ten years.

Former Prime Minister Junichiro Koizumi's political determination to apply the principle of "privatizing whatever services private companies can provide" was based on an aim for a distortion-free development of the financial market in Japan, in response to a situation in which government-managed Postal Savings and Postal Life Insurance had been accounting for one-fourth of households' financial assets in Japan. In order to ensure effectiveness, the Postal Services Privatization Committee (PSPC) was established for the purpose of observing the postal privatization process and studying and discussing the expansion of these two postal financial companies' scope of business. PSPC instituted the following two rules regarding the study and discussion.

- 1) In regard to deciding policies concerning the approval of the expansion of their scope of business, PSPC shall hear opinions from people who have a clear will to express their viewpoints.
- 2) In regard to debates at PSPC, proceedings shall be open to the public.

Among various kinds of opinions, the following two points are the most essential.

1. Even after the Postal Savings and Postal Life Insurance are privatized, their image as government-managed entities remains with the Japanese public. Since, as long as the government indirectly owns the postal financial institutions through holding shares (currently 100%), it is difficult to eliminate "the implicit government guarantee," as a principle, the expansion of their scope of business shall not be approved.
2. In the first place, all the operations which Postal Savings and Postal Life Insurance had conducted were ones that private financial institutions can provide, so they should either withdraw from these operations or transfer them to private financial institutions.

PSPC believes that there is a fundamental misunderstanding with regard to 1. I would like readers overseas to pay attention to the following point. In order to secure the sustainability of Japanese society, successive cabinets have been working on the issue of fiscal reconstruction. Given the process, it is impossible to let the two former government-managed financial institutions compensate their losses by imposing an additional burden on taxpayers even if in danger of bankruptcy. Commission members of PSPC have continued insisting that if we give a steady look to the challenges Japan faces for the twenty-first century based on this common understanding, it would be impossible for the government to guarantee these two postal financial institutions' debts again. In fact, regarding these two postal financial institutions, special establishment laws like Fannie Mae in U.S. are not provided, and the Banking Law and the Insurance Business Law have been applied to them in the same way as with other private financial institutions. Therefore, if, by any chance, the government has to guarantee a debt of financial institutions or offer additional investment, it will be only when there is a possibility that systemic risk becomes materialized through individual financial institutions' fears of bankruptcy. In PSPC's

view, the "implicit government guarantee" has no place to exist. If, by any chance, an opinion based on this kind of false view is expressed from even a part of the Japanese public, the chairperson of PSPC has the responsibility to correct this fallacy based on his qualifications, and the Minister for Privatization of Postal Services as a cabinet member has already issued a statement to clear up misunderstandings on the part the Japanese public.

Based on this basic understanding, PSPC will face the issue of approving the expansion of two postal financial companies' scope of business. The following points of view will then arise.

- Whether or not the business expansion distorts the private sector's fair competitive order.
- Whether each of the two postal financial institutions is capable of promoting new operations appropriately. Have internal control and compliance systems been fully established?
- For enlistment of these two postal financial institutions, can the business expansion be considered as indispensable for (potential) investors to judge these companies' future corporate value?

Therefore, in the cases that the business expansion will distort a fair competitive condition, the operation executing system is poorly organized, or the expansion cannot be considered to contribute to investors' judgment, PSPC will consider that the perspectives stated above are not satisfied.

The theory that Postal Savings and Postal Life Insurance are no longer necessary as stated in 2 surely brought up an important point concerning privatization. However, the laws related to privatization of postal services did not take this position and accepted as a given the practical continuance of their operations. The reasons include the following causalities.

- In order to make the twenty-first century's capital market efficient and produce attractive profit-earning opportunities, it was considered necessary to put assets contained in Postal Savings and Postal Life Insurance once again back into the family budget.
- However, if the premise were an abrupt abolishment of Postal Savings and Postal Life Insurance, an opposition movement of 270,000 Post Office workers would have had grown strong under the slogan of not allowing workers to be deprived of their workplace, and there was the possibility that privatization could not be started.
- For this reason, there was no choice but to approve the continued existence of functions of Postal Savings and Postal Life Insurance and adopting a method to position them as new assignments of privatized postal financial institutions. However, it was indispensable to set a goal of fully integrating these postal financial institutions into the private sector's financial order.
- On the other hand, there was the problem of lowering economic vitality in non-large city areas in the Japanese archipelago, and in order to activate them, the idea was prioritized that, so as to produce the kind of hopeful privatization that the Japanese public was seeking, it would be necessary to leave the two postal financial institutions, which have a network type function that covers the Japanese archipelago, the possibility of newly developing.
- Although the laws related to privatization of postal services gave sufficient consideration to postal workers' employment, there was a strong opposition movement, so the bill was rejected in the House of Councilors. This led to the dissolution of the House of Representatives and a general election, and the result was that the great majority of voters supported the bill to privatize postal services. Given such a difficult legislative process, not unlike trying to thread a camel through the eye of a needle, there would have been little possibility of submitting a bill including the abolition of Postal Savings and Postal Life Insurance without succession of these functions even by the Koizumi cabinet.

Japan in the twenty-first century has to fully promote the basic infrastructure of investment society. That is because the generation who finishes their working lives will live for about 25 years on average and will depend on the pensions they have contributed and the financial assets they have saved while they were working.

From this perspective, based on the premise of having fair competition with private financial institutions at home and abroad, one option would be that the two privatized postal financial institutions will establish cooperative relationships with other financial institutions while exploiting each institution's characteristics. Thus far, I have indicated the following points.

- Although they have come to practically take over the bloated balance sheet:
 - 1) From the ALM perspective, it is desirable to downsize the balance sheet for the management of financial institutions.
 - 2) Should they think about obtaining confidence matching the new age through efforts such as recommending client families to transfer balance in their savings that exceeds the amount they keep as liquid money into other financial assets such as Japanese government bonds for individuals?
 - 3) From the viewpoint of cooperation with other financial institutions and the efficiency of Japan's financial market, should they devise ways such as creating a secondary market for loans in order to establish a market in the fields where other financial institutions could not demonstrate their initiatives?

PSPC presented "the View of PSPC concerning its Study and Discussion on the Future Business Scope of Japan Post Bank and Japan Post Insurance," which dealt with the above points, and posed the PSPC's view toward privatization of the two postal financial institutions.

I hope that readers overseas take some interest in the various contradictions held within Japan Post Holdings and its subsidiaries, which stand on the springboard of privatization while shouldering the negative heritage of its time as a government-managed entity such as the fact that the Post Office's network undertook special expenses to help support local communities. Needless to say, now that Japan Post Holdings and its subsidiaries have become private companies, they will not be allowed to backslide. In particular, if a management system which tries hard to irrationally maintain the size of the balance sheet is established, PSPC will also have to check its operations strictly. However, in order for Japan Post Holdings and its subsidiaries to overcome its internal contradictions, PSPC's perspective is that it is necessary to create a new backbone through the expansion of their scope of business.

In the light of Japan's retail financial market, there is the possibility that Japan Post Network as a service commissioned company will become very successful. That is because selling financial products by commission can be Japan Post Network's dominant profit-making source. By raising the slogan "from savings to investment," the Japanese government has been presenting its goal of activating Japanese society through challenging risks. As a matter of course, Japan Post Network will be also positioned within this context.

Most of the employees at the former post offices were posted at either Japan Post Service or Japan Post Network. Japan Post Service takes up its mission to conduct universal service in the postal mail field, and is arranging its lineups as a shipping company. Here too, fair competition is the basic premise, but it is easy for the Japanese public and users to understand how this company will work. By its side, Japan Post Network, as a service commissioned company, has greater flexibility how it does business, but they have just started enriching their specific service contents. PSPC, which acts as a watchdog over the privatization process, will also pay attention to new function-assignments on this point.