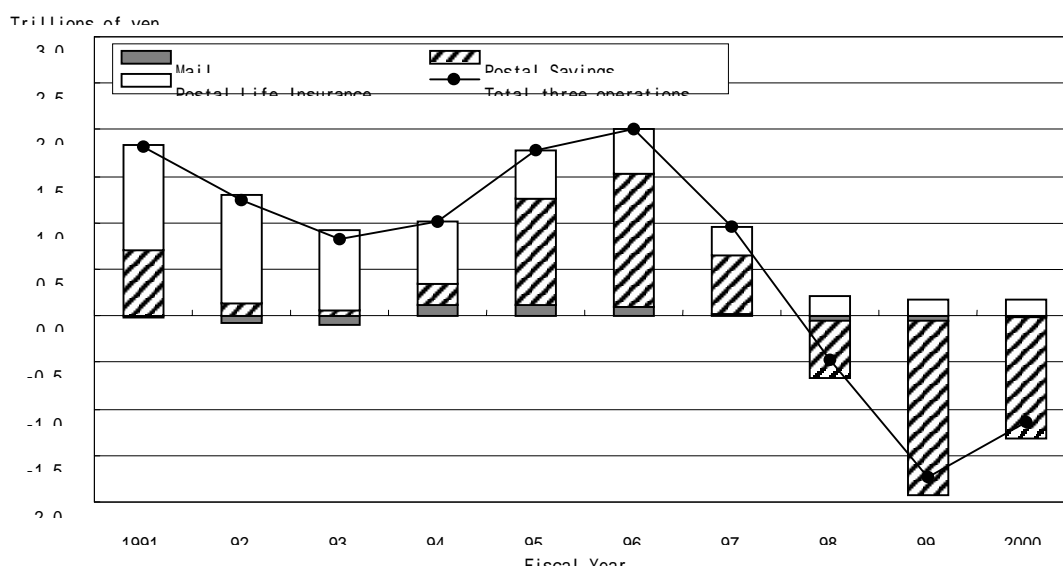


Towards the Privatization of the 3 Postal Operations

1. The three postal operations

First, let us look at the balances (profit or loss situations) of the three postal operations (Figure 2-1). Until the mid 1990s, the three operations were incurring large surpluses of about 1.5 trillion yen. In fiscal 1996, their surplus rose to as high as 2 trillion yen. However, from fiscal 1997, the balance has deteriorated rapidly, and in fiscal 1999, it showed a deficit of 1.7 trillion yen. This improved slightly in fiscal 2000, and the deficit shrank to about 1.1 trillion yen. The main reason for the deterioration in these balances is that in fiscal 1998, the postal savings operation marked a large deficit. However, the mail operation structurally is one that is prone to incurring losses as well and the surplus in the postal life insurance operation has also shrunk due to the expanding negative spread that they have been experiencing from the prolonged lower interest rates.

Figure 2-1. Balance of the Three Postal Operations



Sources: Ministry of Post and Telecommunications, “Japan’s Post 2000/2001”

Cabinet Office, “Postal Savings 2001”, “Postal Life Insurance 2001”

1.1 Mail operation

The mail operation received 26.5 billion pieces of mail items in fiscal 2000 – a growth of about 1.5% over the previous year. This is due to a year-on-year increase of 1.9% of sealed letters (first class mail), and about a 4.0% increased in postcards (second class mail), while the volume of all other types of mail declined. The parcel delivery division is in fierce competition with private home parcel delivery companies, and the number of items received for delivery is on a declining trend and falling far below the competition. The share of parcels handled by the post office over all parcels (mail and home delivery) peaked at 27% in 1991 and has shrunk every year since then. In

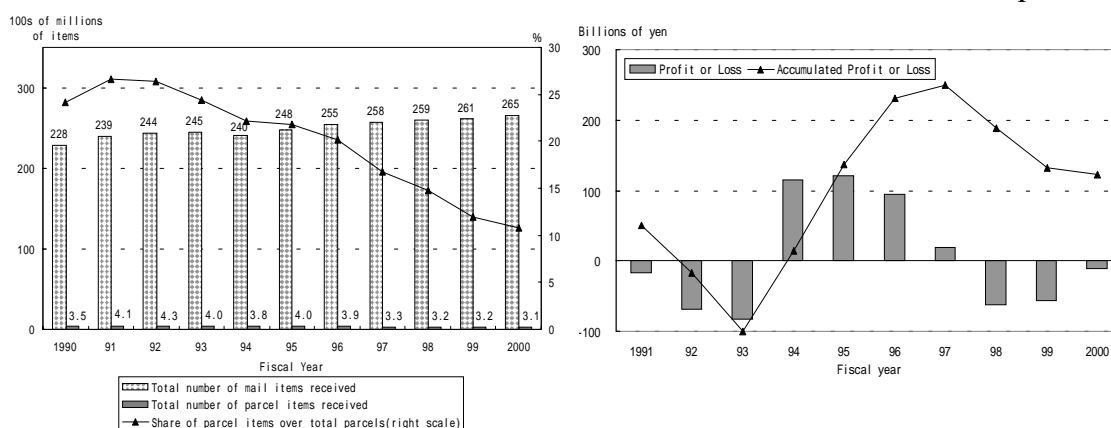
fiscal 2000, it was close to 10% of the total (Figure 2-2). Total mail items received follow a similar pattern to GDP growth, and they have not been able to expand since the prolonged recession following the burst of the economic bubble.

If we compare the number of total mail items received by country, at the end of 1999, Japan had the third highest number of items after the U.S. and France. However, if we look at the number of mail items sent out on a per capita basis, the figure for Japan is 207 items mailed per person per year, and falls to 18th highest in the world. This is about one third the number of items sent out in the U.S.

The balance of the mail operations improved greatly in fiscal 1994 following a mail rate hike (the first in thirteen years and averaged about 24%) implemented in January 1994. The balance (profit or loss) when the prices were first increased was improving confidently, but after fiscal 1996, it stagnated and by fiscal 1998, it fell into a deficit position (Figure 2-3). Although the balance improved by a large margin in fiscal 2000, there still was a deficit of 10 billion yen.

Figure 2-2. Trends in Mail Operation

Figure 2-3. Profit or Loss Condition of Mail Operation



Notes: 1) Total mail items sent out are the total of items sent out as domestic mail (regular mail, parcels) and international mail (regular mail, parcels).

2) The share of total parcels refer to the share handled by the post office of all parcels sent by mail and by home parcel delivery service in the year.

3) Accumulated profit or loss refer to all profits or losses accumulated in the past.

Source: Ministry of Post and Telecommunications, “Japan’s Post 2000/2001”, Ministry of Land, Infrastructure and Transport Web Site (<http://www.mlit.go.jp/>)

A look at the past ten years of revenue and expenses of the mail operation shows that in many years, expenses have increased over and above any increases in revenue, and the structure is one that easily invites deficits (Table 2-1).

Table 2-1. Revenues and Expenses of the Mail Operation

	100s millions of yen				
	Revenue	Growth Rate	Expences	Growth Rate	Balance
FY 1991	18,750		18,923		-173
FY 1992	18,950	1.07%	19,631	3.74%	-681
FY 1993	19,611	3.49%	20,443	4.14%	-832
FY 1994	22,348	13.96%	21,201	3.71%	1,147
FY 1995	22,865	2.31%	21,647	2.10%	1,218
FY 1996	23,362	2.17%	22,419	3.57%	943
FY 1997	23,138	-0.96%	22,940	2.32%	198
FY 1998	22,635	-2.17%	22,990	0.22%	-625
FY 1999	22,438	-0.87%	22,991	0.00%	-553
FY 2000	22,424	-0.06%	22,524	-2.03%	-100

Source: Ministry of Post and Telecommunications, “Japan’s Post 2000/2001”

The only way the mail operations can rid itself of this “loss-incurring” structure is to either increase its revenue or to reduce its expenses. According to the Postal Law, Clause 27, Item 4, when the accumulated deficit reaches 5% of a single year’s revenue, then a hike in mail rates may be justified. However, in June 1997, the Postal Services Council declared a freeze on all mail rates until fiscal 2005, and so it is unlikely that a large rate hike such as in fiscal 1994 would be repeated. Since the number of mail items being received is not growing either, an improvement in revenue will be difficult to achieve.

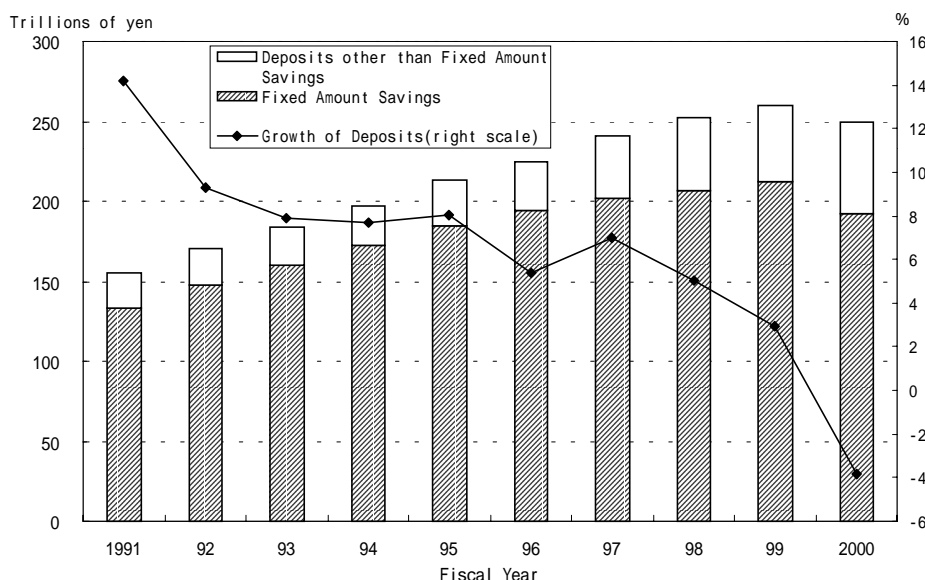
Regarding expenses, their breakdown shows that the share of human resource expenses is high. If we take into account the wages of part-time employees, these expenses reach almost 70% of total expenses. So long as mail employees are national government employees, then it is very problematic to reduce wages or to adjust employment levels based on deteriorating business. Trimming human resource expenses are in practicality very difficult. As these employees get older, these expenses could rise even further, and so any improvement in expenses under current conditions is not very likely. If the mail operations are liberalized from fiscal 2003, then there will be competition from the private sector and the business environment of the mail operation will become even more severe.

1.2 Postal savings operation

We now consider the postal savings operation. The balance of postal savings grew throughout the 1990s, and by the end of fiscal 1999, the balance was at 260 trillion yen (Figure 2-4). The balance at the end of fiscal 2000, however, fell by 10 trillion yen to 250 trillion yen. This was due mainly to the large-scale maturities of some fixed amount term postal savings (Teigaku Savings) that were contracted in the beginning of the 1990s when the interest rates were quite favorable. Even compared to the largest financial institution in Japan, the Mizuho Financial Group, whose total deposits are about 64 trillion yen, we see how massive the postal savings balances are. Broken down by type of saving, Teigaku Savings account for almost 80% of the total. The advantages of the product, coupled with the back-up of the government on the savings contributed greatly to the solid increase in the postal savings balance.

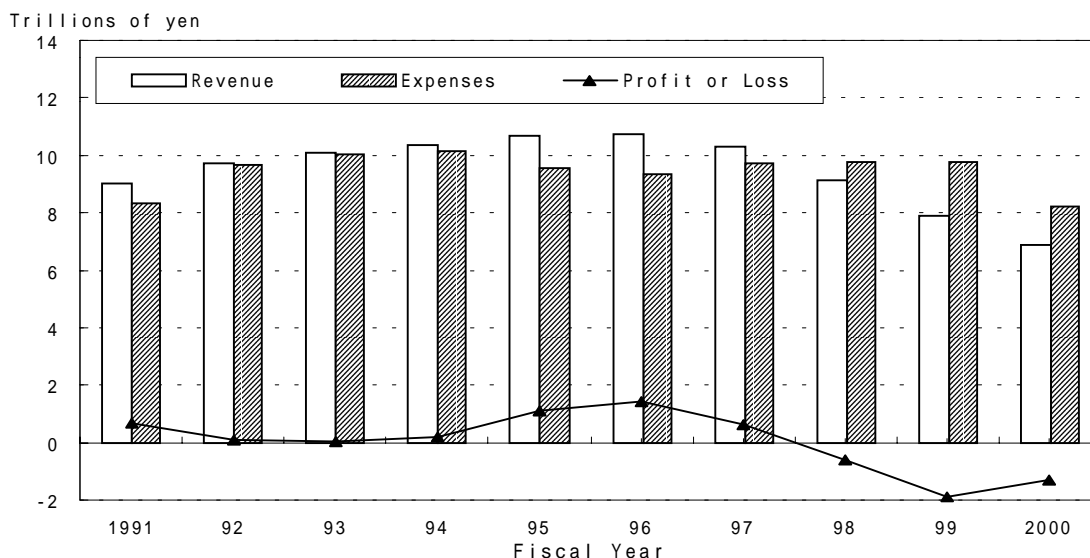
The balance recorded by the postal savings operations however, saw huge deficits from fiscal 1998 to 2000 (Figure 2-5). In fiscal 1999, the deficit peaked at 1.9 trillion yen. This is mainly due to the fact that the interest rate on Teigaku Savings (with maturities of ten years) continue to be at high levels (this would be the cost of funds to the government), while the deposit interest from the Trust Fund Bureau (with terms of seven years) have been rolled over to lower interest rates (return on funds), resulting in a negative spread. Since many of these Teigaku Savings will mature by the end of fiscal 2001, the interest payment burden should be eased, and the balance should head towards an improvement. However, from fiscal 2001, the obligation of the Postal Savings system to deposit their funds to the Trust Fund Bureau has been eliminated, and so they could be facing financial market risk. No longer with a stable source of income from the deposits into the Trust Fund Bureau, they will no longer be able to secure a revenue commensurate with their deposit balances. For this reason, the revenue source of the postal savings operation is expected to become less stable.

Figure 2-4. Balances of the Postal Savings



Source: Cabinet Office “Postal Savings 2001”

Figure 2-5. Revenues and Expenses of the Postal Savings Operation, and the Profits or Losses Incurred

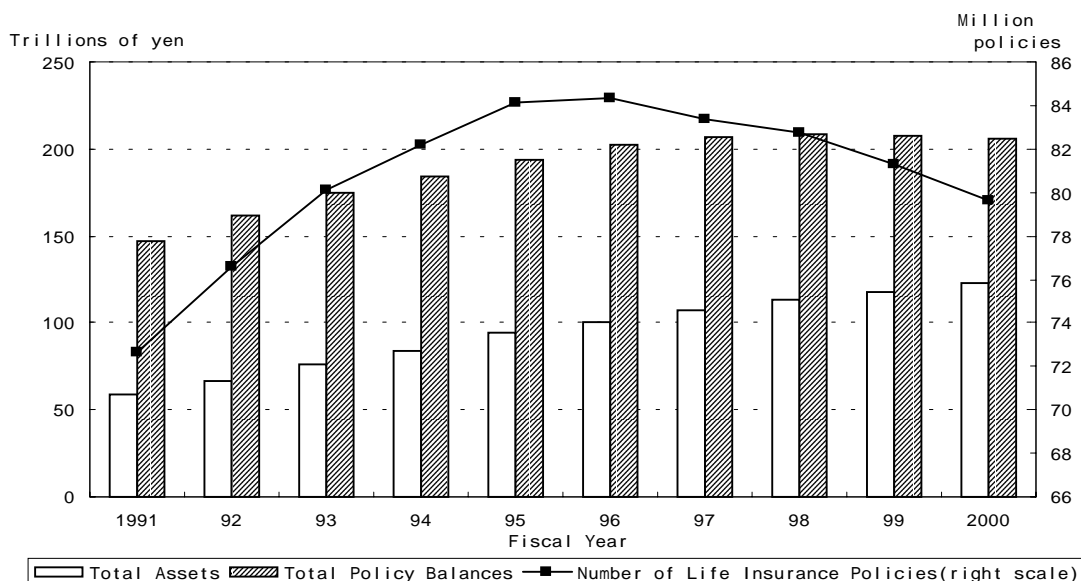


Source: Cabinet Office “Postal Savings 2001”

1.3 Postal Life Insurance operation

At fiscal year end 2000, the total number of policies held in the Postal Life Insurance system totalled 79.62 million, and the total policy balance was 206 trillion yen (Figure 2-6). The total assets of the postal life insurance operation totalled about 122 trillion yen, and about 2.8 times the assets of the largest private life insurance company, Nippon Life Insurance (whose assets are 44 trillion yen).

Figure 2-6. Number of Postal Life Insurance Policies Held and Total Policy Balances



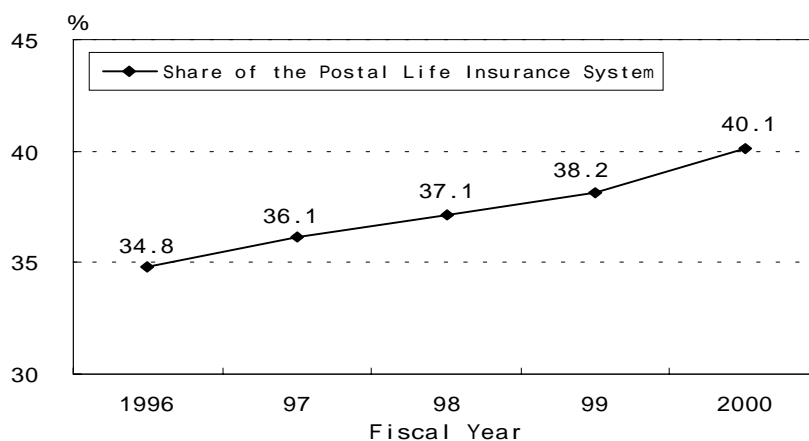
Source: Cabinet Office “Postal Life Insurance 2001”

The main reason the postal life insurance operation is so large is that the private life insurance

companies, in intense competition with each other, have become very weak. Due to falling stock prices, and a prolonged period of extremely low interest rates after the burst of the economic bubble, the investment environment has greatly deteriorated. Many life insurers suffer from negative spreads, and in recent years to October 2001, seven life insurers have failed¹⁾. Putting their faith in the government, the number of policies in the postal life insurance system grew steadily until the mid-1990s.

In fiscal 1997, the number of policies fell over the previous year, and in fiscal 2000, the number fell to below 80 million. The total policy amount also peaked in fiscal 1998, and has fallen, albeit slightly. Yet, compared to private life insurers, total assets of the postal life insurance system as a share of the life insurance industry total has been rising every year (Figure 2-7).

Figure 2-7. Share of Postal Life Insurance Assets



Notes: Share of postal life insurance assets = Total assets of postal life insurance / (Total assets of private life insurance companies + total assets of postal life insurance)

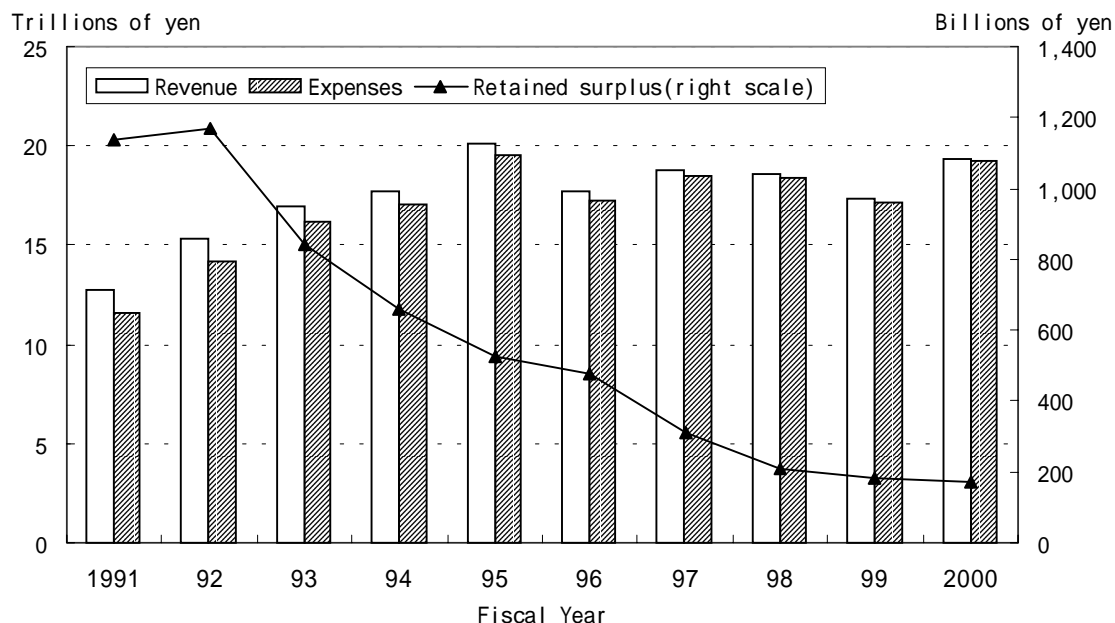
Source: Website of the Life Insurance Association of Japan (<http://www.seiho.or.jp/>)

Of the three postal operations, the postal life insurance operation is the only one that has been earning stable revenues (Figure 2-8). However, the postal life insurance operation is not immune to the deterioration of the investment environment, and the return on investment has fallen from 4.65% in fiscal 1994 to 3.18% in fiscal 2000. The “negative spread” i.e., the difference by which the “expected interest rate” that they must pay out to their policy holders is higher than their actual return on investment rose to 1 trillion yen in fiscal 2000.

If this kind of low return on investment is to be prolonged, than the postal life insurance system will also gradually be weakened. In addition to a growing negative spread, the retained surplus has begun to fall on a year-on-year basis from fiscal 1992, and in fiscal 2000, it was only 0.2 trillion yen and only about 15% the amount in fiscal 1992 (1.2 trillion yen).

¹⁾ In 1997, Nissan Life Insurance failed. This was followed by Toho Life (1999), Daihyaku Life (2000), Taisho Life (2000), Chiyoda Life (2000), Kyoei Life (2000) and Tokyo Life (2001) for a total of seven.

Figure 2-8. Revenues, Expenses and Retained Surplus of the Postal Life Insurance Operation



Source: Cabinet Office “Postal Life Insurance 2001”

2. Government support

2.1 Government support for the postal savings operation

Here we estimate the special support that the postal savings operation is receiving from the government due to the fact that it is a government-run operation. We estimated the value of the subsidies for each type of support (Table 2-3).

(1) Exemption from various taxes

The postal savings system is exempt from paying specific taxes. These taxes are the following five: corporate taxes, corporate inhabitants taxes, stamp taxes, fixed asset taxes and land taxes. We estimated the amount in taxes they would have to pay if they were a private financial institution as follows: Corporate and corporate inhabitants taxes would be zero, stamp taxes would be 27.9 billion yen, and fixed asset prices would amount to 26.3 billion yen.

(2) Exemption from paying premiums on deposit insurance

We calculated a premium of 0.084% on total deposit balances for last fiscal year (fiscal 1998).

(3) Exemption from Legal Required Reserves at the Bank of Japan

The required reserves at the Bank of Japan earn no interest, and so these are funds with no investment return. However, since postal savings are not required to keep legal reserves, we considered the interest income that they earn on an estimated amount that they would be required to keep if they were a private financial institution as an additional subsidy.

(4) Support from interest earned on Fiscal Loan Fund Deposits

Until fiscal 2000, the postal savings operation was obligated to put their funds in their entirety in the Trust Fund Bureau. The Trust Fund Bureau would guarantee an investment return of 0.2% over the coupon rate on a ten-year national government bond. We considered this additional 0.2% as another subsidy from the government.

(5) Exemption from regulatory capital obligations

According to BIS regulations, a private financial institution engaging in international business is required to hold 8% regulatory capital, where a bank engaging only in domestic banking business is required to hold 4%. As the postal savings system is guaranteed by the national government, they do not hold their own capital. We estimated the opportunity cost incurred if the postal savings were subject to these capital regulations and had to hold this capital as an additional subsidy from the government. When the postal savings were investing their funds in the Trust Fund Bureau, we may theoretically apply a risk weight of zero on the investment. However, we considered this as leading to government investment and loan agencies and investment in securities.

Table 2-3. Special Support from the Government to the Postal Savings System

100s of millions of yen

	Fiscal 1999	Fiscal 2000
Exemption from various taxes	542	
Exemption from paying premiums on deposit insurance	2,122	2,184
Exemption from legal required reserves by the Bank of Japan	602	599
Support from interest on Fiscal Loan Fund Deposits	5,055	5,016
Exemption from holding regulatory capital		
Case 1. Figures in parentheses in case of 8% regulatory capital requirement	158 (316)	
Case 2. Same as above	694 (1,388)	
Sub-total		
Case 1. Same as above	8,479 (8,637)	
Case 2. Same as above	9,015 (9,709)	
Contribution to General Account for Debt of former Japan National Railways	-2,000	-2,000
Grand Total		
Case 1. Same as above	6,479 (6,637)	
Case 2. Same as above	7,015 (7,709)	

According to our estimation results, we find that in fiscal 1999 the postal savings system received 847.9 billion yen in total subsidies (in case 1, with a 4% capital adequacy ratio). However, since the postal savings operation is contributing 200 billion yen a year for five years as part of a write-off of the ex-Japan National Railways Debt, we subtract this amount from the total and are now left with 647.9 billion yen.

2.2 Postal Life Insurance operation

We believe the Postal Life Insurance Program receives the following special support from the government due to the fact that there is a government guarantee on the system. These are as outlined in Table 2-4 and include: 1)Exemption from various taxes 2) Exemption from contributing to the Life Insurance Policyholder Protection Corporation and 3) Support from interest guaranteed by the Fiscal Investment and loan program.

Table 2-4. Special Support from the Government to the Postal Life Insurance Operation

100 million yen

	Fiscal 1999
1)Exemption from various taxes	1,007
2)Exemption from contributing protection and management funds to Life Insurance Policyholder Protection Program	286
3) Support from interest guaranteed by the Fiscal Investment and loan program	1,071
Grand Total	2,364

(1) Exemption from various taxes

The postal life insurance system is exempt from paying taxes. These are: corporate taxes, corporate inhabitants taxes, corporate enterprise taxes, stamp taxes, fixed asset taxes, and we estimate the total exemption for fiscal 1999. Broken down by tax type, they were exempt from paying 67.9 billion in corporate and corporate inhabitants taxes, 16.3 billion yen in corporate enterprise taxes, 12.1 billion in taxes on fixed assets, and 4.4 billion in stamp taxes.

(2) Exemption from contributing to protection and management funds of the Life Insurance Policyholder Protection Corporation

Private life insurance companies participate in a Life Insurance Policyholder Protection Program. The program is a mutual support scheme that aims to protect policyholders and maintain the confidence in the life insurance industry as a whole.

The life insurer must provide a portion of their profits to the “protection fund” and to the “management fund” every year. Since the postal life insurance system is guaranteed by the government, they is not obliged to contribute to these funds, and we estimated the amount they are saving and considered this a government subsidy.

Life insurers pay to this “protection fund” until it reaches 560 billion yen subject to an annual cap of 46 billion yen. If the postal life insurance system were to also participate in this scheme, then the total would have to be increased from the current 560 billion yen. We assumed that the postal life insurance system would fund this difference. Private life insurers contribute 46 billion yen a year, while the postal life insurance system would pay 28.6 billion yen.

(3) Support from interest guaranteed by the Fiscal Investment and loan program

In return for contributing funds to the fiscal investment and loan program, the postal life insurance system is guaranteed an investment return of 0.2% over the coupon rate on ten-year government bonds. In our estimates, we considered this additional 0.2% a government subsidy.

We consider the sum of 1) to 3), that is 236.4 billion yen, the amount that the postal life insurance system is receiving from the government in special support. Moreover, private life insurers, in order to keep their solvency margin ratios at relatively high levels, must hold funds and other capital, but the postal life insurance system, that has full government support is not subject to the regulations of the solvency margin ratios.

3. Proposal to privatizing the three postal operations

Recently, there has been much active debate regarding the privatization of the three postal operations. In the Basic Law on the Administrative Reform of the Central Government of 1998, it was stated that “No review will be made towards privatization.” However, when Junichiro Koizumi, a proponent of postal operation privatization, was elected Prime Minister in April 2001, privatization became an option in the postal operation review proposal.

These operations have long been criticized from the private home parcel delivery services and from private financial institutions as putting pressure on private enterprises, and there have been many calls for privatization. In this section, we put forth a scenario of full privatization as a proposal.

We considered privatization of the three postal operations in such a way that they would be put in the same competitive situation as private institutions, while maintaining as much as possible the value of the businesses as they are privatized (the government would sell shares of the businesses to the private sector).

We assumed here that a postal network that extends throughout the country is a valuable asset, and this universal service should be preserved after privatization as well. The customers of the postal savings system and the postal life insurance system, should derive the same benefits after privatization as they are currently enjoying, and the postal office network could be well-utilized as a financial infrastructure for other financial institutions as well. In other words, the mail operation company, that will be owners of the post office network, would offer the same universal service, but could also have opportunity for revenue enhancement by earning commission fees by taking on some of the other businesses, while further developing other areas business.

3.1 A stock company with 100% government investment in 2003

Under the current reform bill, the three postal operations will become a public corporation. Postal employees will continue to be government employees while the operation will become a financially independent entity. Details of this postal public corporation remain unclear, and the shape and form of this entity are vague.

When we are enforcing a financially independent entity whose customers are the general

public, and having it assume management responsibility, then the most apt form for the enterprise to take is that of the stock corporation. Moreover, ownership by the government gives the public the impression of a government guarantee, and so the privatization aspect is crucial. In this proposal we have this public corporation take the form of a stock company, with 100% government investment. Then, we propose that full competition conditions are prepared by 2004, and in this year the entity become fully privatized (that is, stocks are sold to the public).

Furthermore, the equity necessary for the incorporation of the company will be provided by the government, but for the postal life insurance operations, it is necessary for the corporation to protect the dividend-earning policyholders. In the past five years, 80.2%²⁾ of retained surplus have been distributed as dividends to postal life insurance policyholders. The new corporation should also be able to treat these policyholders in a similar way. The existing policies where government guarantee is provided for in the policy, should continue to receive this government guarantee until maturity. The ceiling of deposits in postal savings and coverage by postal life insurance (both currently 10 million yen) will be maintained until 2004.

3.2 Conditions to be prepared by 2004

In order to be prepared for the privatization to take place from 2004, the following conditions should be paved until 2004.

(1) Return the special privileges the operations have been enjoying due to their government affiliations, and make the playing field level for the private sector.

E.g., Payment of various taxes, preparations to become members of the Deposit Insurance Corporation of Japan and the Life Insurance Policyholder Protection Scheme, enforcing corporate accounting principles, and audits from the Financial Services Agency (FSA).

The three operations of the postal system have been exempt from paying various taxes, but when they are privatized, they will be required to pay these taxes in the same way as all private sector companies do. Furthermore, once they are privatized they will no longer have government guarantees, and so they will need some kind of safety net and will be required to participate in the Deposit Insurance Corporation of Japan and the Life Insurance Policyholder Protection Corporation. However, the incorporated company will be 100% owned by the government until 2004. The customers will take it for granted that it is government guaranteed, and so we believe that it would be appropriate that the equivalent to what is owed to both programs be paid to the national coffers (General Account).

Strict corporate accounting principles will also have to be introduced. Existing state-owned facilities will be bought at an appropriate price or leasing fees should be paid to the national coffers

²⁾ Five year average from fiscal years 1996 to 2000. We took “amount paid out in dividends” and added “current year retained surplus” to find the retained surplus, and found the share of the dividend payments. Source was “Postal Life Insurance”, the postal life insurance system’s disclosure publication.

(general account). Moreover, the postal operations encompass many family companies, and so consolidated accounts must be enforced. External auditing should also be conducted.

In addition, in order to eliminate duplication in the settlement system in Japan, they will have to participate in the Zengin System or MICS. As the postal savings business is privatized, they will hold a current account with the Bank of Japan, and will be subject to the Bank of Japan’s supervision. The current system of using the postal transfer account to settle with financial institutions will be eliminated, and for private financial institutions, they will no longer need to have the double burden of pledging collateral to two systems (Zengin System and the postal transfer account). The tallying up of the payment balance of financial institutions is done through the Zengin System. From technical differences in this system and the Postal Savings (Settlement) System, the Postal Savings System should be upgrading their system. Although both systems are planning upgrades in 2003, this kind of duplicated or even wasted investment can be avoided if the new system is designed with the imminent privatization of the postal savings operations in mind.

(2) Deregulation in the private sector

E.g., Removal of barriers to entry into mail business, insurance and banking business to be permitted to operate out of the same offices.

The government monopoly on mail business will be removed and by 2004, private entry will be permitted. The Ministry of Land, Infrastructure and Transport (MLIT) will become the supervisory agency and will have the authority to approve such entrants. A condition to entry, however, will be that they provide universal service. The MLIT will continue to supervise all mail service providers, including the private mail business companies so that this condition of universal service continues to be met.

Furthermore, both insurance and banking business can be performed out of the post offices, and since abolishing regulations to the private sector would be a fair arrangement as well, banking and insurance business will be allowed to be done out of shared offices. Using the post office network, the various existing banking products can be promoted, and further, deregulating the securities business will also come into the horizon.

(3) The change in organisation of the three postal operation companies

E.g., Division of three operations, preparations to provide private products through the post office network, employees to give up their government employee status, elimination of special post office status.

Running the three operations under one company and dividing them only by manipulating the accounting will not eliminate the arbitrary nature of the operations, and so it is necessary that the three operations are completely divided and are financially independent. The existing post office network and the employees should all be consolidated under the new mail-delivery company, and

the new postal saving company and the new postal life insurance company should pay for the use of these facilities. By allowing private financial institutions to use post office facilities to sell their products on commission, the new mail-delivery company can earn revenue from commission consignment fees. At the same time, delivery and collection divisions can form alliances with private home delivery services and enhance their efficiency.

Postal saving and insurance companies must be subject to the Bank Law and the Insurance Business Law, and will be audited periodically. Regarding asset investment methods, the current postal savings system and the postal life insurance system have had no experience in credit analysis or collateral management, and so it will be difficult for them to engage in lending to corporations or to individual borrowers. For the time being, they will likely be investing in the markets, and so it is not likely that there will be any disruption to the appetite for government bonds with the privatization. However, under the current environment of drastically low interest rates, there is a large risk that interest rates will rise, and so investments will become short-term. The postal savings and life insurance operations together hold funds of over 400 trillion yen. They will undoubtedly continue to be the largest buyer of government bonds and so the government should endeavour to introduce variety to their government bond issuance.

With the full privatization we propose for 2004, postal employees will have to give up their status as government employees, although they will continue to be government employees until full privatization, while the company is owned by the government. For those employees that wish to maintain their civil servant status, transfers to other ministries and agencies can be considered, or another choice is to transfer them to the supervisory agency of the new company. However, as a general rule, they should automatically become employees of the three new companies in 2004. In 2003, although they will still be in transition, so long as the entities are financially independent, then their remuneration schemes should be independent and should include incentive packages.

The special post office system should be eliminated, and should be changed to individual-run new KANNI post offices that will undertake businesses for commission fees. These new KANNI post offices should have a choice as to which of the three business they will undertake, but given the fact that the universal service is important, then the new mail-delivery company who will be consigning the mail business should ensure a minimum revenue from this line of business.

(4) Conditions not to be enforced

E.g., A forcible reduction of scale

In the discussions on making the postal businesses into a public corporation, there have been suggestions to lower the ceiling on deposits into the postal savings. However, in this proposal, as we are assuming a complete privatization, we feel it is meaningless to impose this kind of restriction forcing the reduction of scale. Moreover, since the current Postal giro accounts do not have a ceiling, the balance in these accounts will increase rapidly after the ban on payoffs is lifted. In this scenario where full privatization takes place in 2004, a total of 10 million yen in deposits in the Postal giro

account and the postal savings account will be guaranteed by the Deposit Insurance Corporation of Japan. Since this takes place one year after the ban on the payoff is lifted, then we can expect a temporary shift of funds to postal giro accounts. However, since this is only for one year, if the privatization schedule is made clear from the outset, then we believe there is no need for any special countermeasures.

3.3 Full privatization by 2004.

As the government will begin to sell its interest in the three companies, they will become fully privatized. So long as they are private companies, then after this, any decisions regarding their management type, their product array, or service will be left to the management of the company.

For existing financial institutions, the huge scale of the new postal life insurance and postal savings companies may continue to be a cause of worry for them. Assets held by the postal life insurance system is 40% of the entire life insurance industry, and by total deposits, the postal savings system holds 26.7%. From an anti-monopoly perspective, when private companies merge and the merged entity has a 25% market share, then it can be subject to the investigation of the Japan Fair Trade Commission. Both the postal life insurance and savings systems are from their scale, large enough to be subject to this kind of investigation. However, in practicality, dividing the entity would be very difficult. Even if we considered dividing the operation by region, we would not be able to change the concentration in each prefecture. That is, even if the postal savings business was split into two companies, one in the east and the other in the west, they would still hold a 30% share in Hokkaido, for example. Or, if the entities were divided throughout Japan and the shares in each region could be reduced, having the customers that live in the same area choose between postal life insurer A and postal life insurer B, would cause confusion and would not be practical.

In order to put them on the same competitive level playing field as other private financial institutions, the post offices -- the distribution network of the two businesses -- would have to offer the same services as the other private financial institutions. The new mail-delivery company that owns the post office network (since they are an independent entity from the postal life insurance and savings companies) may decide that it is to their benefit to actively sell the products of other financial institutions in return for commission fees. Moreover, if post offices that exist in most cities, towns and villages all join a sales network for all financial institutions, the convenience and dominance of the postal savings and life insurance systems will be shared.

Postal employees will likely be concerned that with privatization, there may be a large reduction in employees. This is a matter not limited to the public sector, as both public and private enterprises will be forced to go down this path. At the same time, the new mail-delivery company that will be taking on most of the employees, will have an added function of becoming a “financial infrastructure” and can look forward to the development of their business. This should be considered not a simple “lay off”, but with the appropriate training, there are possibilities employees to be assigned to the new businesses.

There may be concerns that such remote areas as the more remote islands and mountain areas

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may lose their post offices. However, so long as the postal operations must offer universal service, then their physical channels should be maintained. With the progress and acceptance of IT, there is a large possibility that the meaning of “universal service” may change in the future.