



# *Index of Postal Freedom*

## **Japan Post**



### *Overview*

**Japan Post** is comprised of four major entities: postal operator Japan Post Service, post office operator Japan Post Network, life insurer Japan Post Insurance, and financial institution Japan Post Bank. This unique structure was created in a landmark, 10-year privatization scheme on October 1, 2007.

That privatization plan, however, was halted in early 2010 by the new government of the Democratic Party of Japan (DPJ), which was elected in September 2009. The four-pronged structure for Japan Post is set to remain in place until October 2011, when JP will be re-organized into three entities.

### *Structure*

The four present JP entities are all multimillion- or multibillion-dollar entities. Japan Post Insurance employs 5,770 workers and is the nation's primary provider of life insurance policies. During the 2008 fiscal year (which ended March 31, 2009), JP Insurance reported premium income of ¥7.9 trillion (US\$83.69 billion).

Japan Post Bank -- with 233 branches, 11,675 employees, and agents in approximately 24,000 post offices -- holds deposits totaling over ¥177.5 trillion (US\$1.88 trillion) and total assets of ¥196.5 trillion (US\$2.08 trillion). The Bank's net income was ¥229.3 billion (US\$2.43 billion) in the 2008 fiscal year. With such financial heft, Japan Post Bank is the biggest bank in the world.

Japan Post Service's 95,631 employees distribute 68 million pieces of mail per day to 32 million locations. JP Service delivered 21.2 billion pieces of mail in the 2008 fiscal year and earned a net profit of ¥29.8 billion. Rates for regular letters up to 25 grams are ¥80 (US\$0.85); for letters up to 50 grams, the rate is ¥90



(US\$0.95).

In fiscal 2008, Japan Post Network earned ¥40.8 billion (US\$432.2 million) through its network of 24,539 post offices. It employs 112,726 people. Japan receives the second-highest volume of mail in the world, trailing just the United States.

All told, the net income for the entire Japan Post Group was ¥422.8 billion (US\$4.48 billion) in fiscal 2008.

Ordinary Japanese households, who tend to shun "riskier" financial markets, have long kept their savings in low-interest accounts with Japan Post Bank. Having halted privatization, the DPJ is poised to double the level of deposits that JP Bank can legally take, to ¥20 million (US\$211,880) per customer. The existing government guarantee on deposits would stay at ¥10 million (US\$106,030). This change would give the postal bank a huge advantage over other Japanese banks.

The DPJ government is also contemplating a change that would allow Japan Post Insurance to raise its coverage limit to ¥25 million (US\$264,850). Japan Post Insurance already controls 40 percent of the market.

### *Liberalization and Privatization*

In principle, Japan's postal market has been liberalized since January 2003. As many as 100 firms have applied for licenses to deliver mail up to 250 grams. But none of these firms has a significant presence in the postal marketplace. Japan Post effectively has a monopoly.

The highly publicized privatization scheme had been full of stops and starts even before the DPJ government officially put it on hold. In reality, Japan Post would hardly have been private, as the state would have retained full ownership of the holding company.

Historically, Japanese economic planners have identified postal reform as key to making Japan's financial markets more efficient. The country has struggled



through four recessions since 1991, and policymakers have admitted that interlocked and inefficient capital allocation was inhibiting growth. Japan Post simply controlled too many assets. As of 2005, more than 85 percent of Japanese households had postal service accounts and some 60 percent had insurance policies with Japan Post.

Former Prime Minister Junichiro Koizumi staked his political legacy on the privatization of Japan Post by calling snap elections in 2005. Despite passionate opposition, Koizumi won enough support to move ahead with his long-term plan to privatize the behemoth.

In January 2006, the government mandated the establishment of a holding corporation -- Japan Postal Services Corporation (JPSC) -- whose stock was to be entirely owned by the government. JPSC in turn was structured to own the stock of four subsidiary operating corporations created as Japan Post was split up. JPSC began to identify itself as Japan Post Holdings Co., Ltd. The four-part structure formally came into being on October 1, 2007.

These reforms tore deep into the fabric of Japanese society. Political and cultural opposition was strong, and powerful interest groups continuously made their voices heard.

Japan's postal labor unions proved especially hostile to the privatization plan. In fact, two of the postal unions, previously rivals, merged in response to the announced plan in October 2007 to form the Japan Post Group Union. This syndicate has 229,000 members.

By September 2009, when Koizumi's Liberal Democratic Party was voted out of office and replaced with the Democratic Party of Japan, the privatization plan began to unravel.

On March 30, 2010, the DPJ government adopted Banking and Postal Service Minister Shizuka Kamei's "renationalization" policy, and the privatization plan was effectively scrapped.

In October 2011, the government plans to re-organize Japan Post into three



entities. A holding company that merges the explicitly postal entities (Japan Post Network and Japan Post Service) would stand at the top of the organizational chart. Japan Post Bank and Japan Post Insurance would operate under the wing of this new holding company. The government plans to take the new company public at some point but will keep more than one-third of the shares.

*The Economist* called the halt to Koizumi's privatization plan a "symbol of the government's reluctance to restructure the economy."

The original privatization plan called for the Bank and Insurance arms to be transferred to ownership by private shareholders by 2010. The state-owned holding company would have then relinquished all shares in them by 2017.

Japan Post Network and Japan Post Service would have continued to be completely controlled by the holding company. They were not to be privatized themselves, but the government had plans to relinquish two thirds of its interest in the parent holding company by 2017.

Previous efforts to privatize even parts of Japan Post have met resistance. A plan to sell an unprofitable string of hotels owned by the JP holding company was scuttled in February 2009, after the Minister of Internal Affairs and Communications called into question the deal's transparency and sale price.

### *Regulation and Control*

A 2004 Cabinet decision left Japan's politically appointed Minister of Internal Affairs and Communications (MIC) with virtually complete authority in mail matters -- approving all changes in postage rates and supervising postal operations and standards. The Cabinet ruling also continued universal postal service, and stated that the postal monopoly would not be abolished "for the time being." In effect, the government continued to set the prices and make the rules.

With privatization now a non-starter, regulatory reform is also unlikely. Japan Post and its emerging subsidiaries will continue to report to and be supervised by the Japanese government.



The arms of Japan Post are government-owned corporations. They report directly to the government and retain government guarantees and special rights.

### *Competition & Universal Service*

Universal service is recognized in Japan to comprise 6-day delivery of mail of up to 4 kilograms. The DPJ also plans to charge the re-organized postal group with providing "universal" banking and insurance services throughout the country. An independent postal reform committee would be created to monitor for unfair competition with private-sector financial institutions.

Japan Post is in the process of modernizing its traditional mail operations. It has taken steps to form business alliances with both Japanese and European firms to gain a foothold in the high-margin package delivery market. Almost immediately after initial restructuring in October 2007, Japan Post forged a domestic partnership with Nippon Express, a prominent Japanese parcel delivery firm.

As a result of the DPJ's reforms, Japan Post is poised to compete more aggressively with private insurers and banks. Private firms are not pleased with the government's decision to raise the ceiling on JP's bank deposits and insurance policies. They fear that competition will suffer. Other critics of the new reform plan worry that it will throw the nation's financial markets "back to the past."

JP's business focus remains on the domestic market. Insurance and banking services are sold through the Post's network of post offices, and the company has not announced any plans to expand abroad. About 80 percent of Japan Post's assets are invested in Japanese government securities, so foreign dealings appear unlikely.

### *Other Non-Postal Activities*

Japan Post has introduced electronic bill-paying and also begun to offer its customers the option of moving savings into a range of investments -- including stock market investment trusts managed by private financial firms. Japan Post



has also formed an advertising company to take advantage of unused space inside and outside of post offices. As of 2008, Japan Post Bank offered JP-brand credit cards. Similarly, Japan Post Insurance has begun offering hospitalization and surgery insurance.

### *Future*

Koizumi's plan for postal privatization would have fundamentally changed the nature not just of Japan's postal services but of the entire Japanese financial sector. It also would've set the stage for greater levels of liberalization across the entire Japanese economy.

The DPJ seems committed to the old status quo. It's unlikely that Japan's leaders will revisit postal liberalization and privatization at any point the near future. And with the reconstituted Japan Post freed of many of its former banking and insurance strictures, Japan Post appears poised to play an even greater role in the Japanese polity and economy.



## *Useful links*

[Japan Post Holdings Website](#)

[Wharton School Paper on Japan Post's Privatization](#)

[Japan Times Q & A on Japan Post's Privatization](#)

[Japan's Ministry of Information and Communications - Postal Service Policy Planning Bureau](#)

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