

**Basic Policy on the Privatization of the Japan Post**

September 10, 2004

Cabinet Decision

The privatization of the Japan Post is positioned as the most sweeping reform since the Meiji Era and it will bring immense benefits for the people of Japan.

- (1) The latent potential of the four functions of Japan Post, that is, the range of over-the-counter services, postal services, postal savings and postal life insurance, will be fully exploited and the convenience of these services maximized for the people of Japan as the provision of a range of high quality services will be made possible at low rates through expansion of operational freedom in the market.
- (2) The “invisible public burden” on the Japan Post will be minimized, thus enabling utilizable resources to be put to use in the interests of the national economy.
- (3) The flow of funds which were previously directed into the public sector will now be channeled into the private sector, which will make it possible for people’s savings to take part in leading the economy towards revitalization.

In order to realize these benefits for the people, the government will respect the five basic principles in advancing privatization of the Japan Post, namely the principles of revitalization, consistency, convenience, resource utilization and consideration, and in accordance with the Basic Policy outlined below, will privatize Japan Post in 2007, with privatization being fully realized after a transitional period.

## **1. Basic Perspective**

It is vital that privatization will lead each of the four functions of Japan Post to be absorbed and integrated into each of their respective markets, becoming independent under market principles. The necessary conditions for this are as follows.

### (1) Expansion of operational freedom

- After privatization, restrictions on business and management provided for under the Japan Post Law will be eased, while consideration will be given to matters such as the degree of equal footing with the private sector and of the government involvement.
- In the final stages of privatization, it would be possible for the privatized companies to freely engage in business as private companies.

### (2) Ensuring equal footing with the private sector

- The competitive conditions will be equalized with other private companies.
- Each of the companies established through privatization will be subject to tax obligations, just like any other private company.
- Contracts for postal savings and postal life insurance will be differentiated between those concluded before (herein after referred to as “old contracts”) and those concluded after (herein after referred to as “new contracts”) privatization. As such, new contracts will be subject to the Deposit Insurance Corporation of Japan or the Life Insurance Policyholders Protection Corporation of Japan, while government guarantees will be abolished. (Ordinary savings will be classified as new contracts.)

(3) Clarification of profits and losses of each business and elimination of risk of being affected by other businesses

- It will be necessary to ensure that each of the four functions are capable of standing as independent companies in the market, for which each of the four businesses will clarify their profits and losses to confirm their independent financial standing.
- From the perspective of stability of the financial system, risk of being affected by other businesses will be eliminated by such measures as preventing management difficulties of other businesses from impacting the financial sector.

## **2. Framework of the organizational structure at time of final privatization**

(1) Establish a company for each function

- Establish four independent companies each administering one of the four functions of the Japan Post: over-the-counter services network company, postal services company, postal savings company and the postal life insurance company.

(2) Divide into regional companies

- Whether the over-the-counter services network company, postal savings company or the postal life insurance company divides its business by region shall be left to the management of the new companies to decide.

(3) Establishment of a holding company

- In order to secure the integrity of management, the government will establish a company which will function purely as a holding company to which the four companies described above will be affiliated. As for the

postal savings and postal life insurance companies, their stocks will be sold during the transitional period and privately-owned privately-run companies will be realized. At the occasion, the government will conduct a review of the management situation at the new companies as a whole and of the trends in the global financial situation. The government will hold over a third of the total volume of stocks issued by the holding company.

(4) Corporate body succeeding the public company

- A corporate body in possession of the “old contracts” of postal savings or postal life insurance together with corresponding asset accounts (hereinafter referred as “public corporation account”) shall be established as the corporate body to succeed the Japan Post.
- The administration and investment of assets and liabilities in the public corporation account will be commissioned to the postal savings and postal life insurance companies.

### **3. Modalities for each business company at the time of final privatization**

The modality of each business company at the time of final privatization is as follows. With regard to schemes such as the framework necessary for division of companies, they will be incorporated in the Bill on the Privatization of the Japan Post described later.

(1) Over-the-counter services network company

(a) Description of business

- The company will contribute to the development of the region and secure profitability through establishment of

appropriate commission fees and provision of new services.

- To this end, the company will take on the over-the-counter operations of each of the postal services, postal savings and postal life insurance companies. Contracts to offer other services such as specific operations of local governments, operation of the public-nature including receiving and payment of pension benefits, governmental pension and public utilities, as well as operations in cooperation with local governments such as welfare-related services, will also be received.
- In addition to receiving contracts from private financial institutions, the companies will be able to provide retail sales services, travel agency services and ticketing services, as well as to enter a wide range of businesses that are closely linked to local communities, such as long-term care services, and intermediary services for care planners.

(b) Location of offices, etc.

- Legislation pertaining to the location of offices will obligate the company to make efforts to ensure locations are easily accessible to residents, and modalities of specific standards for the location of office will be clarified in the system designing process.
- Taking into account the accessibility to alternative services, location of offices in densely populated areas will be reviewed, while consideration will be given to the maintenance of offices in under-populated areas.

- The scope of over-the-counter services, in principle, include post-office based customer-facing operations in postal services (with the exception of postal collection and distribution services), postal savings and postal life insurance, as well as the range of services described in (a) above.

## (2) Postal services company

### (a) Description of business

- In addition to the conventional postal services (over-the-counter services commissioned to the over-the-counter services network company), the company will be able to enter a broad range of logistics-related businesses in both the domestic and overseas markets. It will continue to provide services, upon receiving an appropriate commission fee, that contribute to the local community such as assistance for at-home welfare services for the elderly and information provision services.

### (b) Scope of provision of service

- The company will continue to perform its obligation to provide a universal postal service.
- Preferential measures will be established in cases where this is deemed necessary in order to maintain universal service.
- Regulations on entry into the correspondence delivery services business shall be maintained at the current standards for the time being and public sector involvement concerning pricing shall continue.
- The company will also be obligated to provide services

such as the special delivery of legal documents. Institutional arrangement necessary for such services will be investigated in the detailed system designing.

(3) Postal savings company

(a) Description business

- Like any other private financial institution, the company shall conduct services based on the bills that are generally applied to financial services, such as the Banking Law (over-the-counter services and money collection services will be commissioned to the over-the-counter services network company).

(b) Separation of new and old contracts

- Like any other private company, the company will be subject to tax obligations. Starting from all new contracts, government guarantees on postal savings shall be abolished and the company shall join the Deposit Insurance Corporation of Japan.
- The public corporation account shall be held by the corporate body that succeeds the public company, and its administration and investment shall be commissioned to the postal savings company. Investment in this account will place emphasis on low risk.

(4) Postal life insurance company

(a) Description of business

- Like any other private life insurance company, the company shall conduct services based on the bills that are

generally applied to insurance service, such as the Insurance Business Law (over-the-counter services and money collection services will be commissioned to the over-the-counter services network company).

(b) Separation of new and old contracts

- Like any other private company, the company will be subject to tax obligations. Starting from all new contracts, government guarantees on postal life insurance shall be abolished and the company shall join the Life Insurance Policyholders Protection Corporation of Japan.
- The public corporation account shall be held by the corporate body that succeeds the public company, and its administration and investment shall be commissioned to the postal life insurance company. Investment in this account will place emphasis on low risk.

(5) Corporate body succeeding the public company

(a) Description of business

- The corporate body shall take on the existing contracts of postal savings and postal life insurance and execute them.
- The investment of assets concerning the existing contracts of postal savings and postal life insurance shall each be conducted by the postal savings and the postal life insurance companies, respectively.

(b) Management of the public corporation account

- The actual duties related to the public corporation account

will be commissioned to the public savings company and the public life insurance company, which shall each make investment for the account together with the new contracts.

- Investment in the public corporation account will place emphasis on low risk.
- With regard to the public corporation account, government guarantees and other special treatment shall be maintained.
- Profits and losses generated from the public corporation account will be accredited to the new companies.

#### **4. Modalities for transitional and preparatory periods**

##### (1) Modality for the transitional period

After privatization, the period until final privatization is realized shall be designated as the transitional period. The modality for the transitional period is as follows.

##### (a) Organizational structure during the transitional period

- The government shall abolish Japan Post and in its place establish four companies providing services, and a company functioning purely as a holding company, whose stocks being entirely held by the government. Companies shall be established in April 2007. Regarding the feasibility of this process from the perspective of information system, a forum for investigation by experts shall be established under the auspices of the Office for Privatization of Japan Post and conclusions will be drawn by the end of the year. The stocks of the over-the-counter services

network and the postal services companies will be entirely held by the holding company, but those for the postal savings and the postal life insurance companies will be sold during the transitional period and privately-owned privately-run companies shall be realized. At the occasion, the government shall conduct a review of the management situation at the new companies as a whole and of the trends in the global financial situation. Furthermore, the government shall initiate the sell-off of stocks of the holding company during the transitional period, but shall maintain ownership of more than one-third of the total number of issued stocks.

- A corporate body succeeding the public company shall be established. Its duties are to take on the old contracts of postal savings and postal life insurance and execute them. The administration and investment of old contracts shall be conducted by the postal savings and the postal life insurance companies.

(b) Degree of operational freedom

- As a part of the services provided by the over-the-counter services network company, the handling of private-sector financial instruments and others shall gradually be expanded after application of trial periods. The over-the-counter services network company shall provide community-based services as regional “family bank” and “one-stop offices.”
- The postal services company shall endeavor to enter new areas of business, including the international logistics market.

(c) Management of the postal savings and postal life insurance services

- The maximum amount allowed for postal savings and postal life insurance shall be maintained at the current level of 10 million yen for the time being. When applying the limit, savings and life insurance shall be managed by aggregating the totals of new and old contracts of each depositor or insured person. Meanwhile, preparations shall be advanced towards the goal of final privatization, including enhancement of managerial resources.
- Appropriate investment shall be conducted taking into account the impact on private financial institutions, evasion of additional public burden, and impact on the government bond market. In line with the progress made towards privately-owned privately-run companies, incremental expansion of loan services, etc., will be made possible under strict asset and liability management (ALM) as the process.
- Due and appropriate attention must be given to raise the predictability by market players, based on the fact that the Japan Post holds a large quantity of government bonds.

(d) Ensuring equal footing

- From the beginning of the transitional period, the new companies shall conduct business in accordance with prescribed legal frameworks just like any other private companies. Government guarantees will be abolished, and they will be subject to tax obligations and will be obliged to join the Deposit

Insurance Corporation of Japan or the Life Insurance Policyholders Protection Corporation of Japan.

(e) Completion of the transitional period

- The transitional period shall come to an end by March 2017 at the latest.
- The postal savings and the postal life insurance companies are to move to a final framework by the abovementioned date at the latest. To this end, special bills granting exceptions to laws such as the Banking Law and Insurance Business Law shall be enacted for a limited period to address the modalities for these two companies during their transitional period.

(2) Modality for the preparatory period

The period until April 2007 shall be designated as the preparatory period and preparations for privatization shall be promptly advanced.

- (a) An executive committee (tentatively named) shall be established and will give consideration to the modalities for the management and financial affairs of the companies after privatization.
- (b) From the perspective of facilitating smooth separation of the services into four companies, the classification of accounts that are currently in use shall be reviewed, and upon elimination of excessive liabilities of the postal service, classification of accounts in accordance with the four functions will be conducted. As for measures for the enhancement of equity capital necessary for each function to become independent in the market, investigation will be conducted on the basis of the detailed system designing.

- (c) Preparations shall be made to separate the new contracts from the old.
- (d) Entry into international logistics services shall be made possible.
- (e) Provision of investment trusts for sale over the counter shall be made possible.
- (f) Preparations shall be made to enter other new business areas.
- (g) Related facilities, etc.
  - Modalities for facilities related to postal savings, as well as those for welfare facilities for policyholders of postal life insurance and other related facilities after separation of the services into four companies shall be investigated.

## **5. Employment modalities**

- (a) Personnel that are employed by the Japan Post at the time of privatization will lose the status of civil servants with the establishment of the new companies and will instead become employees of the new companies.
- (b) Schemes will be developed in the system designing process concerning the modalities for treatment of employees, including the introduction of measures for the recruitment of human resources and measures to promote working motivation and management efforts.
- (c) Consideration will be given to employee morale and stability in industrial relations.

## **6. Development of a promotion system**

- (a) After the Basic Policy has been compiled, the Headquarters for the Promotion of Privatization of the Japan Post (tentatively named) will be established comprising all Cabinet members with the prime minister as chairman, which will conduct preparatory work before submission and enactment of bills related to privatization as well as advance measures to make a smooth transition from a public company to private companies as well as to realize final privatization.
- (b) After privatization, a surveillance group comprised of intellectuals will be established under the Headquarters for the Promotion of Privatization of the Japan Post. The surveillance group will conduct a review every three years after privatization, assessing its progress and management structures while bearing in mind trends in the international financial market. Furthermore, the surveillance group will provide suggestions on important issues in management including permission and approval. The chairman of the Headquarters shall take necessary measures based on the suggestions of the surveillance group.

## **7. Submission of bills, etc.**

- In line with the Basic Policy outlined above, the government is to immediately engage in work to formulate the Bill on the Privatization of the Japan Post. Furthermore, the government shall engage in detailed system designing in line with the Basic Policy, and draw prompt conclusions in the interest of realizing the

formulation of the Bill. Reports shall be made to the Council on Economic and Fiscal Policy (CEFP) whenever necessary during this process.

- The basic bill and major related bills shall be submitted to the next regular session of the Diet and efforts shall be made to achieve their enactment.