Japan Post Corporation Submits Management Plan to Gov't for the Era after Privatization

By Aoki Masaru

Spelling Out Expansion Strategy for Operations of Two Finance Subsidiaries

JAPAN Post Corporation, led by president Nishikawa Yoshifumi, is the company tasked with preparing and planning the privatization of Japan's postal services. At the end of July 2006, it submitted to the government an implementation framework, or management plan outline, for the era after the privatization of postal services in October 2007. As one outstanding feature, the framework clearly unveils a strategy to expand the operations of the two finance companies that will inherit the postal savings operations and postal life insurance operations, respectively. For the share capital of these two finance companies, whose complete sale within 10 years after privatization has already been decided, the framework's policy envisions a stock-exchange listing in the fourth year after privatization at the latest, with the entire share capital to be sold off over the ensuing five years. In order to enable an early share listing of Japan Post Corporation itself, which will be transformed into a holding company at the time of privatization, steps are to be taken to reinforce group management and operating structures. For the implementation of the privatization, Japan Post Corporation will produce a detailed plan to be devised mainly by the CEO designates elected on September 1, as directors of the four operating companies, and will submit this plan to the government by the end of April 2007.

Japan Post Corporation was incepted in January 2006 as stipulated by the Postal Services Privatization Law established in October 2005. Through the privatization, Japan Post will be divided into four operating companies under the holding company, Japan Post Corporation. The four will consist of a mail delivery company tasked with postal services and logistics operations, a post office company in charge of the approximately 24,600 post offices nationwide, a postal savings bank to inherit the postal savings operations and a postal life insurance company to succeed the postal life insurance operations.

In the presentation of the group companies and respective product and service offerings, Japan Post Corporation's framework distinguishes between those that will be assumed from Japan Post at the time of the privatization and new ones that the companies aim to offer after the privatization. Additionally, it reveals data on organization and staff numbers, asset scale and earnings projections.

Deposit Limit of ¥10 Million to be Abolished

When it comes to the key issue of new products and services after privatization, for the postal savings bank, it has been proposed to raise or abolish the limits on deposits that depositors can make (currently ¥10 million), to start over-the-counter sales of insurance products other than those offered by postal life insurance operations, to offer foreign-currency deposits, housing loans and card loans for individuals, to become active in lending and guarantee operations for small and medium-sized enterprises, and to initiate credit card/trust operations. It is further proposed to continue fixed-amount saving, a deposit product with semiannual compounding, with a limit of ¥10 million on the combined total of deposits under the old and new deposit agreements at the time of privatization. Additionally, the framework envisages the deployment of 233 directly-operated outlets nationwide, clear evidence of megabank ambitions leveraging the organization's enormous assets, which will stand at ¥188 trillion at the time of privatization.

Regarding new products and services of the postal life insurance operations, for the era after privatization, the framework demands immediate implementation of commission-based sales of other insurance companies' products geared at the corporate market, adoption of higher limit amounts (currently ¥10 million as a basic rule) applicable after a certain period since insurance was taken out, variable annuities, advances into third-sector products such as medical care and casualty insurance, and insurance contracts requiring medical examinations, premised on an increase in limit amounts. Furthermore, in order to obtain, over the medium and long term, stable investment yields above the expected rates of return, the framework demands the immediate after-privatization liberalization of asset classes eligible for investment on an equal footing with other life insurance companies, including fund beneficiary certificates and direct stock investment as well as syndicated loans. It is further proposed that the postal life insurance deploy approximately 1,000 sales staff at 81 directly operated outlets.

Current postal savings and postal life insurance operations have been seeing their outstanding balances diminish as high-yield products reach maturity. Thus, postal savings deposits fell from approximately ¥250 trillion as of

March 31, 2001 to the ¥199-trillion level as of March 31, 2006, while postal life insurance contracts dropped from ¥205 trillion to ¥167 trillion. It is for this reason that the framework emphasizes the significance of the two finance companies entering new business fields, out of concern that stock-exchange listings and share offerings may not be appreciated by investors based only on the existing operations.

One More Megabank

On the other hand, for the mail delivery company, which is under obligation to provide uniform services nationwide, including the delivery of letters and postcards, the framework incorporates a policy of strengthening high added-value domestic and international logistics operations. Moreover, beginning with the privatization, the post office company plans to expand its earnings through such steps as offering nonlife insurance products, including automobile insurance, starting catalogue-based sales, including gift items directly from the producer and actively managing real estate holdings through the redevelopment of post offices in urban regions. Furthermore, for new products and services after privatization, the framework mentions new insurance products created through alliances with financial institutions other than the postal life insurance operations, provision of services as a charge collection agent using POS systems that enable speedy payment of all types of charges, as well as car and bicycle parking lot operations. Commissions from group companies for providing counter services are estimated at ¥1.292 trillion by FY 2011.

The framework's outlook for each group company's earnings as measured in net income at the time of privatization in FY 2008 is for ¥96 billion at Japan Post Corporation, ¥38 billion at the mail delivery company, ¥86 billion at the post office company, ¥428 billion at the postal savings bank, and ¥77 billion at the postal life insurance company, for a total of ¥725 billion. Expectations for net income in FY 2011 call for ¥296 billion at Japan Post Corporation, ¥53 billion at the mail delivery company, ¥59 billion at the post office company, ¥488 billion at the postal savings bank, and ¥193 billion at the postal life insurance company, for a total of ¥1.89 trillion. These projections do not include earnings from the new operations to be launched after privatization.

Among these data, the earnings projections for the two finance companies are premised on unchanged interest rates. In case interest rates go up, they forecast a substantial drop in net earnings at the postal savings bank, based on a calculation that suggests net income of ¥59 billion in FY 2011 if the coupon rate of the 10-year JGB were to climb to 4.0% over the course of five years. Moreover, for the postal life insurance company, the framework warns that "if new contracts continue to fall, insurance premiums will drop further still, with earnings liable to worsen."

Approximate total assets at the time of privatization will amount to ¥227 trillion at the postal savings bank and ¥115 trillion at the postal life insurance company, far higher, respectively, than those of Mitsubishi UFJ Financial Group (¥187 trillion as of March 31) and Nippon Life Insurance Company (¥50 trillion as of March 31), which are the largest corresponding private-sector companies. The framework casts into relief a growth strategy focusing on oversized government-created finance companies, which is uniformly opposed by private-sector financial institutions on the grounds that "increasing management freedom amid continuing government funding remains a critical issue" (Japanese Bankers Association) and a "contravention of the postal services reform's original goal of a reduction in asset scale, giving rise to serious concerns over the resulting pressure on private-sector enterprises" (The Second Association of Regional Banks). To be sure, judgment on whether or not the privatized companies should move into new operations rests with the government's Japan Postal Privatization Committee (chairman: Tanaka Naoki), but some delicate steering will be required to reconcile the two conflicting objectives of stable management of the privatized companies and prevention of pressure on private-sector enterprises.

Management Stability to Depend on New Operations

On the other hand, according to the framework, the overall group will have around 253,200 employees, consisting of approximately 3,800 staff at Japan Post Corporation, 106,800 staff at the mail delivery company, 125,800 staff at the post office company, 11,400 staff at the postal savings bank and 5,400 staff at the postal life insurance company (including the 1,000 sales staff). In other words, the mail delivery company and the post office company will employ somewhat over 90% of the total. When it comes to measures to improve earnings, however, neither of the two has much in the way of recovery policies, and the road to management independence looks uncertain. Thus, the net income expansion at the mail delivery company from ¥2.6 billion in FY 2005 to ¥38 billion by FY 2009 will come to pass, thanks to a transfer of nearly ¥50 billion in pension costs to Japan Post Corporation as a special factor. For the post office company, for that matter, which will be structured to depend for 98% of its income on fees derived from service provision to other companies, there is an urgency to quickly foster new operations and reduce the dependency on group companies in order to increase management stability and to sustain the current post office network. JS

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