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Edward Lincoln

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COLUMBIA UNIVERSITY IN THE CITY OF NEW YORK

Japan Post Insurance: Unjustified Favoritism

Edward J. Lincoln

Abstract

Japan Post Insurance is the largest insurance company in Japan - indeed, in the world when measured by assets ($1.1 trillion in March 2013). Beyond the market power of sheer size, government ownership results in undue benefits because it enables inappropriate cross-subsidization, results in inefficiency and heightened risk, and violates international principles of national treatment for foreign firms participating in the domestic market. In short, government ownership raises issues of a tilted playing field. Further, economic theory provides no justification for the existence of Japan Post Insurance (JPI) as a government-owned institution.

The obvious conclusion is that JPI needs to be completely privatized in both form and substance. That is, not only should the government-owned Japan Post Holdings sell all shares of JPI to the public, the rules and regulations pertaining to the privatized firm should be identical to those for the rest of the insurance industry. If JPI is not privatized, then the government should regulate it in a manner that avoids the distortions analyzed in this paper.

This paper presents the arguments for these conclusions. It is a companion piece to an earlier paper that dealt with Japan Post Bank.[1]

Context

Reform and privatization of the postal system has been an important policy issue in Japan for over a decade. In addition to providing postal services, Japan's post offices have offered savings accounts since 1875 and life insurance since 1916.

Originally, Kampo (the Japanese short-form for JPI) was part of the postal division of the Ministry of Posts and Telecommunications. A general government restructuring in 2001 merged this ministry with other government agencies to form the Ministry of Internal Affairs and Communications.

In 2003, as part of a larger government reorganization, the postal businesses were transferred to the newly created Japan Post, which was structured as a stock corporation with all its shares held by the government. Under a 2005 law, in October 2007 Japan Post Insurance was created as one of four corporate entities each wholly owned by Japan Post Holdings (JPH), a holding company wholly owned by the government. Each of JPH’s four businesses was to be privatized over a ten-year period beginning in 2007.

Privatization remained controversial and its timetable was revised in a law passed in 2012 while the Democratic Party of Japan controlled the government. Specifically, the deadline for JPH to dispose of all its shares in the postal savings and insurance companies by October 1, 2017 was changed to a requirement that JPH “shall aim to dispose of all of its shares in Japan Post Bank and

Japan Post Insurance and shall dispose [of such shares] as promptly as possible."[2] To date no shares have been sold, and the change in the language in the law is widely seen as a move to delay privatization and leave some residual government ownership.

Another result of the 2012 law was that on October 1, 2012 Japan Post Network Co, Ltd (owns and operates the physical facilities) and Japan Post Service Co, Ltd (delivers mail) merged. Japan Post Group now consists of Japan Post Holdings Co, Ltd and three subsidiaries: Japan Post Co, Ltd; Japan Post Bank Co, Ltd (JPB); and Japan Post Insurance Co, Ltd (JPI). The merged entity, Japan Post Company (hereafter, JPC), was given a specific mandate to provide universal service for delivery, banking, and insurance "on an integrated basis" at its post offices, ensuring that almost all post offices would continue to sell and service JPI policies.

This paper adopts the convention of labeling the pre-2007 insurance operation as Kampo and operations since 2007 as JPI. The formal Japanese name of JPI is Kabushiki Gaisha Kampo Seimei Hoken and it is branded as Kampo Seimei (seimei means life).

The Liberal Democratic Party (LDP) came back into power at the end of 2012 and has since been implementing an economic growth strategy dubbed Abenomics that includes an emphasis on structural reform. Preliminary indications are that as part of this overall economic policy initiative, the LDP-led government may adopt an approach to postal reform that would put privatization back on track. Prime Minister Shinzo Abe has spoken in favor of forward movement on postal privatization. His Chief Cabinet Secretary, Yoshihide Suga, is also known to favor privatization (and voted against the 2012 legislation that weakened postal reform).

Appointment of a new CEO for Japan Post Holdings in May 2013 (bringing in a retired chairman of Toshiba Corporation – Taizo Nishimuro – to replace a former Ministry of Finance official also appeared to be a change in this direction. Mr Nishimuro's arrival at JPH was accompanied by a broader set of personnel changes in upper management.[3]

It is conceivable that Prime Minister Abe will use renewal of postal privatization to gain the symbolic mantle of reform (by returning to the path of the pro-reform Koizumi government a decade earlier). Still, how privatization will play out remains to be seen.

This story of attempted reform and privatization is emblematic of the overall difficulties that have faced regulatory reform in Japan. The public broadly supports the general concept of deregulation and privatization of government entities, but opposition in specific industries has often been strong and outcomes weak. The uncertain prospects for privatization of the postal system are particularly unfortunate because a variety of economic distortions and inefficiencies surrounds both Japan Post Bank and Japan Post Insurance.

Background

In Japan the insurance industry has two traditional sectors: life and property and casualty. In addition, there is a segment that supplements the national health insurance system (including long-term care). Foreign companies concentrate mainly on this third market, which had been relatively ignored by domestic firms. Although, since 1964 all the private-sector life insurers at the time began offering personal accident insurance that covered injuries and hospitalization as well as death.

Originally Kampo provided simple, small life policies. When it began in 1916, there were two products – whole life insurance and endowment insurance – and they were limited in size to serve lower-income households that supposedly were not being served by private-sector firms. Today, however, JPI offers a broad array of products. These include term, four kinds of whole life, seven kinds of endowment policies (including two educational plans), annuities, and "asset-formation" plans.[4]

In addition, JPI offers two types of riders, one covering hospitalization and surgery and another covering accidental death or injury.[5] In this way, JPI has expanded into the third-sector niche.

Of the various products, the most widely sold is endowment insurance (ordinary endowment policies were 43 percent of the number of policies sold by JPI since its start in 2007, with special endowment policies an additional 22 percent). Endowment policies are basically a vehicle for savings, since they provide payments at a specified point in time (retirement, entry to university, etc.) rather than at death.[6] This array of products is basically similar to what other life insurers offer, and the riders enable JPI compete in the market occupied by specialized medical insurance firms. However, JPI continues to have a government-imposed limit on the size of policies it can offer (currently ¥13 million, roughly $130,000 at 2013 exchange rates).

Over the past decade, the number of JPI policies has declined. In 2003, Kampo had 68.5 million life insurance policies and 7.3 million annuity policies outstanding. In 2012, there were 39.0 million life policies (a 43 percent decline) and 5.3 million annuity policies (a 27 percent decline).[7] The overall face value of life policies also declined, from ¥185 trillion in 2003 to ¥109 trillion (a 41 percent decline). However, the value of annuity policies rose from ¥2.6 trillion to ¥4.4 trillion (a 70 percent increase), reflecting the popularity of annuities.[8]

To some extent, the entire life insurance industry has faced declining business over the past decade. For the period 2000 to 2012, the face value of all life and annuity policies in force (excluding JPI and small insurance cooperatives) declined 16.3 percent. However, JPI has experienced a much larger decline in business than the industry as a whole.[9]

JPI sells its insurance products at post offices nationwide. JPC (recall that this is the merged Japan Post Service and Japan Post Network firms) operates 24,514 post offices, of which 20,770 offer insurance services.[10]

In addition, due to the 2012 amendments to the 2005 Postal Privatization Law, it is now possible for postal carriers to perform insurance services, though such services are not being offered as of this writing. While not all employees of JPC would be available to carry out insurance transactions, JPC’s total employment in 2012 was 209,000, suggesting that it has a potential insurance sales and service staff that is the largest among firms in the industry. Nippon Life Insurance, the largest private-sector firm, had total employment of 69,620 in 2012, of whom 51,163 were sales representatives. Nippon Life also sells policies through independent insurance agencies, but even then its sales force is dwarfed by JPI’s.

In addition, the Postal Privatization Law exempts JPI’s parent, Japan Post Holdings, from provisions of the Insurance Business Law and the Banking Law that restrict the extent to which insurance companies can combine with other businesses, including non-financial businesses, through a holding company structure. Since 1998, changes in Japanese law have permitted financial holding companies (with subsidiaries in banking, insurance, and securities), but prohibit them from owning non-financial subsidiaries.

Japan Post Holdings' ownership of insurance, banking, and the non-financial businesses of mail delivery and operation of post offices (as well as hotels and hospitals) would be illegal for private-sector firms that adopt a holding company structure. This combination of businesses provides JPI with marketing, operational, and cost advantages over its private-sector competitors.

JPH owns a number of hotels (66 Kampo no Yado inns, mostly near tourist areas), plus Mielparque wedding halls and a handful of inns and recreation facilities in the Tokyo area. These low-priced facilities were built for the use of Kampo policyholders but are open to the general public. The 2005 Postal Privatization Law required JPH to sell or close the inns, many of which were operating at a deficit. However this was politically controversial. A sale was held in 2009, but then cancelled. and the 2012 amendments to the law eliminated the disposal requirement.[11]

JPG also runs 14 hospitals. Although built primarily to provide medical services to Japan Post Group employees and families, they are open to the public. Finally, JPI inherited from the postal system two long-running daily radio exercise programs, Minna no Taiso (Exercise for Everyone) and 10 Million People's Radio Exercise.

These peripheral activities are holdovers from an era of greater paternalism. Private-sector corporations had (and some still have) hotels and other recreational facilities for their employees, and even provided housing.

The Case Against Government Ownership

The question of the appropriate role for government in providing goods and services in an economy has been the subject of enormous debate since the 19th century. The extreme of the state setting prices and output quantities for all goods and services has proven unworkable. But it can be argued that government ownership is justified in two circumstances.

First, if an industry has large economies of scale leading to a "natural" monopoly, then either the industry must be regulated or owned by the government in order to prevent abuse of monopoly power. A number of countries nationalized railroads, iron and steel production, telephone services, and airlines on the basis of natural monopoly arguments. In Japan, most of the rail network (Japanese National Railways), telephone and telegraph services (Nippon Telegraph and Telephone), an airline (Japan Airlines), and cigarettes (Japan Tobacco) were government-owned enterprises for much of the 20th century, at least partly on natural monopoly arguments.

Second, a product or service might involve positive externalities (social benefits) that cannot be captured in its price. Private-sector firms will either under-produce or not produce at all if they cannot earn revenues sufficient to cover costs. In such cases, society might decide that broad national welfare justifies production, and, therefore, that government must provide it directly or through subsidies. Public education is one common example.

Defining which economic activities legitimately are natural monopoly or have positive social externalities deserving government funding has been difficult and variable over time and across countries. In general, economists have become increasingly skeptical of both the concept of natural monopoly and of positive externalities not captured by the private sector. As a result, most European nations that nationalized industries after World War II have sold those enterprises back to the private sector. Even in the case of perceived positive social externalities, the choice of public enterprise has been challenged due to inefficiency.

As put by Clair Wilcox, a leading economist of public enterprise in the mid-20th century: "How — without the reward of profit or the penalty of bankruptcy — are efficiency and progress to be obtained? How — when there is a monopoly, even though it be a government monopoly — are the interests of the consumer to be protected? And how — given the inconsistency of productive efficiency and public accountability — is the inevitable conflict between efficiency and accountability to be resolved?"[12]

Due to such concerns, many countries have reviewed and reduced the scope of public enterprise over the past several decades.

Similar to the European experience, the Japanese government has fully or partially privatized most of the enterprises it ran in the 20th century. The government sold all its shares in Japan Airlines by the early 1980s. In 1985 it embarked on privatization of Japanese National Railways (which was split into several regional companies), Nippon Telegraph and Telephone, and Japan Tobacco. Although the government still retains partial ownership in some of these companies, they have moved toward being true private-sector firms that compete with other firms in their industries.

How do the economic arguments about public versus private ownership apply to the Japan Post Group, and to Japan Post Insurance in particular?

Postal services have been an area where governments have provided service for several hundred years. Due to the large fixed cost of maintaining a nationwide network of post offices, postal services were considered a natural monopoly. Furthermore, a private firm might serve only those areas where demand made service profitable. In this case, national welfare (such as distribution of newspapers — commonly delivered by mail in the 18th century — to support the information flow necessary to run a successful democratic political system) may be enhanced by public ownership.

Now, even government operation of postal services has been challenged. Technological change (first in the form of radio and television, and now the internet, to distribute news; and first ever-cheaper telephone service then e-mail and now social media for personal communication) has enabled an alternative to mail delivery of letters, magazines, and newspapers.

Meanwhile, private-sector firms have competed for time-sensitive package delivery services (and do not seem to ignore rural areas). In a world with viable private-sector alternatives to government-run post offices, the justification for government ownership has weakened, and government-owned postal systems in advanced nations have experienced declining volumes of business and financial losses.

The argument for a government-owned postal bank or postal insurance company is even weaker. The insurance industry has never been a natural monopoly; in all countries the market for life and other forms of insurance has been characterized by numerous firms and vigorous competition. The need to cope with a monopoly situation, therefore, simply does not exist for insurance.

What about positive externalities? Back when both Japan Post Bank and Japan Post Insurance were established, private-sector banks and insurance companies were in their infancy. Postal savings began in 1875, just as the legal framework for modern banking was being extablished. Several decades passed before the commercial banks had expanded to cover all parts of Japan. Therefore, in the 19th century, one could argue that the post office offered an opportunity to quickly extend a public good (banking services, and especially the collection of deposits that could be used to invest in projects enabling the industrialization and modernization of the economy).

This argument cannot be made for postal insurance. The Japanese postal system began offering insurance in 1916. At that point, private-sector life insurance firms existed. Nippon Life Insurance, Japan's largest domestic insurance provider, was incorporated in 1889. Why the government should have entered an industry that had been established several decades earlier is unclear.

Unlike the creation of the Japanese National Railways in 1906 (through nationalization of a number of existing private railways), existing private-sector life insurance firms were never nationalized and folded into the government-owned postal system. The commonly made argument is that postal insurance offered small policies to lower-income families that were not being served by the private-sector. However, it is entirely unclear why government provision of these policies was the logical solution. A government regulation requiring all private-sector insurance firms to offer small policies would have served the purpose.

The use of the post office to serve lower-income households as a social policy is also evident through the maintenance of the network of hotels and recreational facilities. Historically, private-sector hotels and inns have been relatively expensive. One could argue, therefore, that the post office was providing a social service to those who might otherwise be unable to vacation, and to equalize their opportunities relative to employees of large companies (who typically had both higher wages and benefited from periodic company retreats to company-owned hotels.

But can such a benefit be justified today? And even if it could, why should the provision of low-cost accommodations be a function of the Japan Post Group rather than the Ministry of Health, Labor, and Welfare. A better solution would be to offer incentives to the hospitality industry in the form of either tax breaks or subsidies to provide inexpensive rooms or to provide welfare benefits to low income families that they can use as they choose. In short, while provision of low-cost accommodations and recreation has a warm, fuzzy, paternalistic feel to it that may have appealed to the Japanese public in the past, there is no legitimate reason for the government-owned postal group to be providing these services today.

One possible justification for a government-owned insurance company despite an existing private-sector industry is provision of insurance to geographically underserved areas. For Japan Post Bank, for example, defenders of government ownership argue that private-sector banks do not have branches in many rural villages. This disadvantages those who might face difficulties in getting to more distant branch banks to make deposits or obtain cash. That argument might have been true for savings accounts in the early 20th century, but no longer, as commercial banks expanded their branch networks and have established extensive ATM networks.[13]

For insurance, the argument for an underserved rural market was never valid. Banking services (mainly deposits and withdrawals) required being physically present at a bank office until the advent of ATMs. For a variety of reasons, Japanese long relied on cash transactions, so that relatively frequent access to a bank was important. Insurance is very different. Face-to-face transactions generally occur only once or twice: when someone buys the insurance policy, and when the benefit is paid (or, in the case of endowment policies, when the payments are to begin).

Furthermore, insurance policies are generally sold by licensed agents who can travel to the customer's home if the purchaser is unable to get to the agency office.

Private-sector insurance firms in Japan have both their own sales and service personnel and a large number of independent agents trained and government-certified to sell policies and oversee disbursement of benefits. According to the industry association, in 2012, life insurance firms had 236,000 in-house agents, plus an additional one million agents at independent agencies.[14]

The huge number of independent agents is partly a legacy of the marketing approach of the early post-war years in which insurance was sold by women working in their neighborhoods, and partly a consequence of deregulation allowing commercial banks to act as sales and service agents for insurance companies. It is difficult to believe that with such a large number of agents affiliated directly or indirectly with the private-sector firms that there is any corner of Japan underserved by these firms.

Furthermore, insurance transactions can be handled by phone or through the internet, both available throughout Japan. Therefore, the argument that private-sector insurance firms would fail to adequately serve rural areas is not credible.

The general conclusion is that Japan Post Insurance meets none of the conditions used by economists to justify government ownership. The insurance industry is not, and never has been, a monopoly in Japan or other countries. The private-sector market for life insurance works well and involves a sales and service network that is so large that underserved rural areas are not a legitimate concern. Due to the existence of agents who can travel and the infrequency of the need for contact between the seller and buyer of insurance, there is no social need unmet by the private sector. And the possible unavailability of small policies for lower income families need not have been met by the government-owned entity's provision of these policies.

The Unlevel Playing Field

Kampo enjoyed a variety of benefits relative to the private-sector life insurance industry. As a government business, it did not pay taxes, was not regulated by the same government agency or on the same basis as the private-sector insurance firms, and did not pay into the insurance industry fund to protect policy holders when a life insurance firm went bankrupt.

Kampo was regulated by the Ministry of Post and Telecommunication (MPT) while private-sector firms were regulated by the Ministry of Finance (MOF). All of Kampo life insurance policies received a 100% guarantee from the government. Some of the most egregious forms of favoritism have abated, but some remain.

From 1998 the insurance industry has been regulated by the Financial Services Agency (FSA), to take over supervision of the financial sector from the Ministry of Finance. But JPI is a speical case in two ways.

First, the Postal Privatization Law requires the FSA to share supervisory authority over JPI with the Ministry of Internal Affairs and Communications (MIC, the successor to the MPT) until completion of privatization (at which point FSA will have sole regulatory authority). Furthermore, MIC's supervisory role was expanded by the 2012 Revised Postal Privatization Law.

Prior to 2003, MPT did not have an arm's-length relationship with Kampo because the postal insurance business was essentially an integral part of the Ministry. Nor has MIC established an arm's-length relationship with JPI because the Japan Post Group, including JPI, is run primarily by officials transferred from MIC when JPI was created in 2003. These historical personnel ties limit MIC's desire or ability to act in a neutral manner in its regulatory role. In essence, MIC maintains a patron-client relationship with JPI, promoting JPI's interests rather than holding it to the rules and standards of the rest of the insurance industry.

Second, within FSA, JPI gets special treatment. JPI falls under a special office that deals only with JPI and Japan Post Bank. Many of the employees in this office are reported to be seconded from MIC. Therefore, JPI is not subject to the same FSA supervision as the rest of the life insurance industry. Indeed, in November 2012 an FSA official testifying before the Postal Privatization Services Committee (PSPC) admitted that, between 2007 and 2012, "there were instances when the FSA's supervision [of JPI] had shortcomings ...."[15]

Furthermore, since its license to sell insurance was granted by statute, JPI was not required to undergo the rigorous licensing process applicable to private insurers.

The fact that JPI insurance is sold over the counter at the huge nationwide network of post offices may provide an additional benefit. Japanese post offices provide a variety of services besides mail: acceptance of tax payments and other government-related transactions, as well as JPB savings account transactions. Therefore, many citizens are likely to be in a post office fairly frequently, even in an age of online transactions. The ability of JPI to piggy-back on the physical presence of potential customers in post offices to push sales of its policies conveys some advantage relative to private-sector insurance companies.

This aspect of JPI advantage underwent a significant change in mid-2013. On July 26, JPI and Aflac agreed to gradually expand the number of post offices offering Aflac cancer insurance to eventually include all post offices and direct JPI outlets handling insurance products.[16] Further, MetLife Alico Life Insurance indicated it intends to offer more insurance products at post offices around Japan.[17] This should be seen in the context of Japan's accession to the Trans-Pacific Partnership regional trade negotiations discussed later. Put briefly, the Japanese government has been under pressure to make concessions up front to show good faith upon becoming a participant in the ongoing regional negotiations.

The implicit guarantee of JPI policies by the government is a further advantage. Private-sector insurance firms are subject to the vagaries of market conditions. In the economic turmoil of the 1990s (recurring economic recessions, collapsing stock and real estate prices, plus plummeting interest rates), seven domestic life insurers failed. All private-sector insurance firms suffered greatly in the 1990s because they had guaranteed returns on their policies that were impossible to obtain as interest rates fell. This negative spread problem was a direct consequence of Kampo's competitive pressure on private insurers, a market-power problem taken up in the next section.

Private-sector policyholders are protected by the Life Insurance Policyholders Protection Corporation (LIPPC), established in 1998 to replace the Policyholders Protection Fund. All life insurers operating in Japan, both domestic and foreign, are required by the Insurance Business Law to make payments into the LIPPC. Bailing out policyholders of the seven failed private-sector insurers cost private firms ¥538 billion in additional payments to the LIPPC. But Kampo was by law exempt until 2007, well after the bail out.

Besides the financial benefit of not paying into the safety fund in the past, JPI today is likely to still benefit from public perceptions of risk. Even though policyholders of the seven failed firms were protected by LIPPC, the possibility of owning a policy underwritten by a firm that might go bankrupt certainly remains an unsettling one. In fact, consumers are right to be concerned because the LIPPC only insures 90% of policy reserves as opposed to the full government guarantee of pre-October 2007 Kampo policies. Although all policies issued by JPI since then only carry the same protection as private-sector policies, it is highly likely that the public still perceives JPI as having an implicit full guarantee by the government (since the government would not permit it to go bankrupt).

Reflecting the difference in the guarantees for Kampo policies and new JPI policies, all policies in force as of October 2007 were separated from the newly created JPI. The pre-2007 policies were transferred to a newly created public entity, the Management Organization for Postal Savings and Postal Life Insurance (referred to in this paper as the Management Organization). The policies it holds continue to enjoy a 100 percent government guarantee.

The separation of Kampo policies into the Management Organization is a separation in name only. The Management Organization owns the pre-2007 policies, but all the work related to the policies (collection of premiums and payment of benefits) is contracted to JPI. The Management Organization is, in fact, a small organization with a staff of less than 30.[18]

JPI re-insures pre-2007 policies and charges the Management Organization for this. The fee is substantial. In fiscal 2011, reinsurance payments were ¥3.3 trillion (roughly $33 billion), amounting to 23 percent of all Management Organization ordinary expenses.

Further, JPI has made a large loan to the Management Organization. Most of the borrowing is loaned on to public organizations and local governments, the traditional recipients of loans from the government's Fiscal Investment and Loan Program (FILP). Prior to privatization, Kampo extended such loans directly.

Finally, the income statements show identical amounts of investment income and investment expenses (¥337 billion, roughly $3.4 billion), that match a line item in JPI's income statement listed as interest income from the Management Organization.

Taken together, these accounts indicate that JPI is lending money to traditional FILP organizations, but doing so through the veil of the Management Organization, which does not take any middle-man cut of the interest earnings. This array of connections confirms the closeness of the relationship between the two organizations.[19]

The reason for creating the Management Organization to house the older policies is presumably the probability of future losses as the high guaranteed interest rates on old policies result in payments to policyholders that exceed premium income, although that point has not been reached (with premium income in fiscal 2012 of ¥14.3 trillion and payments to policyholders of ¥11.0 trillion).

This organizational mechanism for separating out problematic assets and liabilities of a corporation is not new. In the wake of World War II many Japanese corporations were allowed to create separate corporate entities to assume old business liabilities (because firms faced large losses as the government failed to pay on war materiel contracts or due to destruction of facilities). Similarly, when Japanese National Railways was privatized in 1985, its pension liabilities were separated into a new entity along with certain real estate in the hope that proceeds from selling the property would cover the pension costs. The intent was to isolate problematic old assets and liabilities from a viable current business.

In the case of the Management Organization, however, the relationship with JPI remains very close. With payments for services and reinsurance going from the Management Organization to JPI, the government is in effect subsidizing JPI, and that implicit subsidy will become more explicit if the government puts additional money into the Management Organization to cover operating losses in the future.

Market Power

Economists worry about the performance of industries dominated by a single large firm or a small handful of large companies that has the power to set prices. In the ideal market situation (perfect competition) prices are set by the overall market forces of supply and demand, the economic outcome is of the greatest benefit to society, and competition forces firms to operate efficiently. When, however, a firm or group of firms can control prices, the result is detrimental to economic welfare. These firms raise prices and restrict output in order to maximize their profits; higher prices and lower output lower consumer welfare. This general problem is the reason many nations have competition laws that impose penalties on firms that attempt to behave in this anti-competitive manner.

Japan Post Insurance is, by far, the largest life insurance company in Japan by all the important measures — number of policies in force, face value of insurance policies, revenue, and assets. Given the diversity of products and the variable size of insurance policies, total assets are the easiest way to compare the relative size of firms. For purposes of assessing market power, it also makes sense to combine JPI and Management Organization assets because these organizations are separate in name only.

Table 1 shows that JPI has 29 percent of the industry's assets. The largest private-sector life insurance firm, Nippon Life, is only 53 percent of the size of JPI, and the next largest, Dai-ichi Life, is only some 34 percent.

Table 1 here

Although JPI alone is merely the second-largest life insurer by premiums, when the Management Organization is included, as it should be, JPI tops the table. Data are in Table 2.

Table 2 here

The market share of JPI and predecessor Kampo varied considerably over the past two decades, rising in the 1990s and then falling more recently. Figure 1 shows the size of Kampo's and then JPI's total assets (not including the assets of the Management Organization to avoid double counting) relative to the assets of the whole life insurance industry.

Figure 1 [was 2] here

In the 1970s and 80s, Kampo's market share varied from 25 to 35 percent. In the 1990s, a sustained rise occurred, reaching 41 percent by fiscal 2002 (ended March 31, 2003). The substantial rise fueled concerns about the unfair nature of competition with JPI. Since that time, however, JPI's market share has dropped back into its earlier range.

The sharp 1990s rise in share occurred at a time when private-sector firms were under considerable stress. As the Bank of Japan cut interest rates over the course of the 1990s in response to the economic consequences of the collapse of real estate and stock market prices, insurance companies were burdened with guaranteed rates of return on their insurance policies that exceeded what they could earn on their investments. The eventual collapse of seven life insurance firms exacerbated a flight to security.

Because Kampo policies carried a statutory guarantee until 2007 and the implicit guarantee of the government that it would simply not fail under any circumstances, the public perceived its policies to be safer than those of private-sector companies. Indeed, the Kampo sales force touted the unconditional government guarantee on Kampo's insurance policies. For example, a major Japanese business weekly reported on postal employees telling customers "Kampo will never go bankrupt, so it's safe."[20]

After 2002, however, the economy recovered, and no major bankruptcies of private-sector life insurance firms have occurred. (One small life insurance company failed in 2008). The recovery, as well as more competent oversight after regulatory authority moved from MOF to FSA in 1998, put the private-sector insurance industry in a more sound financial condition. These factors may help explain the subsequent fall in JPI's market share.

Japan Post Insurance's size — even though its market share has been falling in the past decade — raises two concerns in terms of market power: pricing and product dominance and investment behavior. A firm with a very large market share in an industry may be in a position to control pricing or dominate product design, setting a standard (low prices or new products) that others in the industry must meet.

In the case of JPI, its ability to play a dominant pricing role is not just a matter of market share. Because JPI is not under pressure from shareholders to maximize profits, it is in a position to offer policies at prices yielding a lower profit. This has been alleged in the past, 1990s. From the

1970s, and especially in the 1990s, private-sector firms were periodically under pressure to match the high guaranteed rates of Kampo.

Thus, in November 1974, Kampo launched an aggressive pricing strategy, based on an increase in its assumed interest rate on policies. In response, the Ministry of Finance (MOF), which at the time was responsible for overseeing the regulation of private life insurers (but not Kampo), issued administrative guidance encouraging private life insurers to follow suit, which most did.[21]

In April 1984, Kampo again increased its interest rate, a move that was followed by similar action by the private insurers. A major life insurance company executive, looking back, noted "Fearing that there might be a shift of customers' financial resources to Kampo, we [private life insurers] were in an endurance contest [with respect to who would first lower the assumed interest rates, Kampo or us]."[22]

Maintenance of unrealistically high assumed interest rates has also been blamed by the industry on the eventual failure of the seven insurers in the late 1990s (as market interest rates fell sharply when the Bank of Japan responded to the deepening banking crisis), on the grounds that private firms again felt compelled to match Kampo promises on interest rates.[23]

A second form of market power may exist on the investment side. Individually or together (since they operate under the umbrella of Japan Post Holdings) these firms are major institutional investors in Japan, especially in bonds. If they move more heavily into corporate bonds, they are in a position to influence the terms of the issue. Since JPI allocates only a small portion of its portfolio to corporates, this may be more theoretical than real. But if JPI and Japan Post Bank evolve in the direction of private-sector financial firms' investment behavior, this could be a problem.

The extent to which JPI's current market power should be a concern is unclear. The extraordinary market share it held in the early 2000s is gone, and a falling market share suggests it may not dominate competition in the industry to the extent it once did. Nonetheless, its market share remains very large, and the potential for using its relative size to set industry prices for insurance policies or to influence the market for corporate bonds certainly exists.

Cross Subsidization

The Japan Post Group consists of three operating companies under the umbrella of Japan Post Holdings (JPH). JPI policies are sold over the counter in facilities owned and staffed by Japan Post Company (JPC) (Japan Post Networks prior to its merger with Japan Post Service on October 1, 2012). Because JPC is a separate corporate entity, JPI pays for the use of facilities and personnel. However, in practical terms, the price for using the facilities and personnel of JPC is internal to the broader operation of JPH. By raising or lowering the prices for such services, JPH can shift costs and profits among the three operating companies. Setting prices at non-market levels to deliberately shift profits is a form of cross-subsidization.

In the case of the Japan Post Group, one obvious choice would be to charge artificially high prices to both JPI and JPB to subsidize JPC. Revenue from mail services is declining, and JPC is losing money on its mail services. In the fiscal year ended in March 2012, Japan Post Service (prior to its merger with Japan Post Network) showed a loss of ¥22.3 billion ($280 million), though the company moved into the black the following year due mainly to reduction in personnel and overhead costs.

Paying an artificially high price for facilities and personnel services would appear to be a liability for JPI, relative to private-sector insurance firms. However, it is more likely that the cross-subsidization of JPC is quite limited, as indicated by the loss recorded for Japan Post Services in fiscal 2011. Japan Post Holding's overall strategy may be to shift just enough money from JPI and JPB to JPC to plug most of the operating loss on mail services. That amount of subsidy is likely to be lower than market levels for the services involved.

Think of it this way. JPC owns an existing set of post offices that represent a sunk cost. Any price greater than zero for offering access to those facilities contributes to JPC overhead. A relatively low charge may be sufficient to offset most of the operating loss on mail services.

Imagine a market situation in which a firm owns a set of retail outlets and accepts bids from firms with goods or services to sell. The bidding process establishes a market price for access to the network of facilities and personnel, a price that ought to provide a profit to the owner of the facilities. Although this is a simplistic model, something of this sort characterizes the extensive convenience store chains in Japan (at least through negotiation with sellers, even if an overt auction market is not used). But JPC differs from this model in two important ways.

First, there is no competitive bidding by JPI or JPB to obtain access to post offices. As these two companies are 100% owned by the same parent, they do not have an arm's-length relationship with JPC. Since the original Postal Privatization Law took effect, some private-sector insurance companies have gained access to some post offices, but only after (in contrast to JPI) a competitive bidding process or negotiation for each product.

The agreement reached with Aflac in July 2013 to eventually offer Aflac cancer policies in all offices handling insurance products significantly alters the problem of unequal access. However, the financial terms and how they relate to JPI's access to post offices is not public, so it is not possible to ascertain whether JPI has lower-cost access.

Second, even if there is any desire to maximize profits on the part of Japan Post Holdings, it need not care which of its three subsidiaries produce profits. Therefore there is no need to make JPI pay a market rate to JPC for access, as the profits accruing to the group are the same.

A detailed analysis of costs and prices being paid by JPI for access to the network of post offices is beyond the scope of this paper. Nonetheless, the structure of the relationships within the Japan Post Group makes an artificially low price possible for the two reasons discussed above, and the financial incentives of the group make it highly likely.

Inefficiency

In the private sector, the pressures of competition with other firms, and pressures from shareholders to maximize profit, are supposed to force firms to behave in an efficient manner. In addition, private insurers are required to undergo a rigorous licensing process to ensure that they have sound internal controls and risk management systems, just in case market pressures are insufficient. In contrast, Japan Post Insurance was granted its license by statute (a "deemed license") and has not been required to make the fitness showing required of private insurers, thereby introducing the possibility of inefficiency or risky behavior.

Efficiency relates to the administrative cost of selling and servicing insurance policies and to investments. Data to analyze administration is not available, but investments can be analyzed.

Table 3 compares JPI to the rest of the industry as of March 31, 2013. In very broad terms, JPI behaves much like the rest of the industry. However, at a more detailed level, JPI behaves very differently, as seen in the allocation of investments in securities.

Table 3 here

The only plausible explanation for the differences is that it results from JPI's special position as a government-owned entity. For the past three decades, Japan has had a large current-account surplus with the rest of the world, with a corresponding large net outflow of capital. Over those decades, the private-sector life insurance industry, looking to diversify its investment portfolio in order to maximize returns, has participated heavily in these investments abroad. JPI has not. If the rest of the industry can be described (however imperfectly) as consisting of profit-maximizing firms, then JPI is simply not a profit-maximizing firm.

A similar argument can be made concerning government bonds. JPI has a very high 72 percent of assets in central and local government bonds, almost twice the level of the rest of the industry. Again, one can infer that JPI is motivated by something other than profit.

Even regarding the share of assets invested in loans, there is an obvious non-market aspect to JPI's behavior. At the end of fiscal 2011, an overwhelming 94 percent of JPI loans consisted of a single loan, the one to the Management Organization.[24] This is an obvious policy decision, especially since the Management Organization loans on nearly the entire amount to FILP organizations. In essence, JPI is really making loans to public policy organizations (such as hospitals, highway organizations, local governments, and the like) through the veil of the Management Organization.

Furthermore, since 2007 JPI has actually shifted its portfolio in the direction of greater holdings of central and local government bonds, and away from foreign securities and loans. This is hardly the behavior of an organization adopting the investment behavior of the rest of the industry. Data are in Table 4.

Table 4 here

If JPI has allocated its assets in an inefficient, government policy-driven manner, the result ought to be a lower rate of return on its investments than is the case for the rest of the industry. Data are in Table 5.

Table 5 here

These years, rocked by the 2008-09 global recession, are hardly ordinary years. Because of the drop in the stock market, the industry other than JPI shows a small loss for 2009, but it more than made up for that with higher returns in subsequent years (due in part to recovery of the stock market). In 2009, JPI owned no equities at all, and therefore experienced no such losses. Over the four-year period, JPI's average annual return was 8% less than the rest of the industry's.

In absolute terms a difference of 13 basis points is small. But keep in mind that highly unusual conditions prevail in Japan, with extremely low long-term interest rates that have led to low returns for all financial institutions. The difference is that the private-sector life insurance industry has other assets (domestic equities plus foreign securities) that have helped it to escape the tyranny of low interest rates. To be sure, those other financial assets carry their own risks (stock market volatility, and exchange rate uncertainty), but the industry's somewhat higher return indicates the benefits of portfolio diversification.

The very high government bond holdings also inject greater risk into JPI's portfolio. First, economic theory teaches that portfolio diversity increases expected returns over longer time periods and dampens the volatility of returns. Second, should interest rates rise, JPI will be stuck with a portfolio of shrinking value (rising interest rates mean falling bond prices). The rest of the industry also faces risks, but the broader diversity of its portfolio – particularly with a significant portion of its assets invested abroad – helps protect against rising interest rates.

Although the huge government bond holdings carry risk, JPI faces risks if it were to diversify into equities, corporate bonds, and foreign investments. Until 2001, all the revenue of JPI's predecessor (Kampo) and JPB's predecessor (Yucho—Postal Savings) was turned over to the Ministry of Finance for investment through its Fiscal Investment and Loan Program (FILP). Therefore, the managers gained no experience in investment. Beginning in 2001 the postal system has been permitted to invest some funds on its own. However, because it has continued to keep the bulk of its investments in government bonds, JPI still lacks both experience and trained personnel to managed a diversified portfolio. To be sure, JPI can hire new fund managers, but the potential to mismanage a broader portfolio is high. JPI could also hire outside managers, but whether it will do so is unclear.

In 2012, an FSA official testified before the government committee that oversees postal reform that an examination of the bookkeeping with respect to JPI's investment assets revealed that "segment accounting is not taking place on a per-product basis, raising concerns that [JPI] is unable to rationally calculate earnings per product including education endowment insurance. Accordingly, there is a risk that JPI's product designs may not be based on rational business judgment ...." That is, FPI probably is not matching its investments with its policy objectives.[25]

Inefficiency also exists from the standpoint of the economy as a whole. Well-functioning financial markets seek to allocate financial capital to the most efficient uses (while taking funds away from the least efficient ones) in an ongoing process. To the extent that markets manage to allocate resources to those investments yielding the highest returns, and manage to quickly and continuously reallocate resources as new information becomes available, the economy as a whole benefits. Institutions that invest their financial resources on some other basis (old-boy ties or government pressure) are likely to be misallocating funds and, therefore, injecting inefficiency into the economy as a whole.

Japanese banks, which seriously misallocated loans in the 1980s (to the real estate industry and to stock market investors), are a perfect example of problems arising from lack of careful evaluation of investment choices. JPI appears to be another example. Because JPI is so large, its inefficient allocation of financial resources matters.

A second inefficiency relates to the market for government bonds. These have been quite attractive to private-sector financial institutions, but not to the extent that JPI indulges in their purchase. Combined with a similar preference for government bonds on the part of Japan Post Bank, this means the government is able to issue more bonds at extremely low interest rates than it might otherwise be able to do.

Perhaps one should be thankful for this situation, since fiscal deficits help make up for the chronic lack of domestic demand in the Japanese economy. But the government ought to face a market test for its bonds, and JPI's massive government bond holdings help the government avoid that test. In fiscal 2010, JPI held 8 percent of all publicly held JGBs, and Japan Post Bank held 18 percent, so these two organizations held over one-quarter of all JGBs held outside government.[26] If keeping interest rates low (not just for government bonds) is a desirable monetary policy, that is the function of the Bank of Japan, not JPI or JPB.

National Treatment

Japan is a member of the World Trade Organization (WTO). As such, the Japanese government is obligated to provide foreign goods, services, and service suppliers national treatment. That is, foreign firms are to be treated in the same manner as domestic firms. For goods, this obligation dates from 1947 with the original General Agreement on Tariffs and Trade (GATT). Article 3 of GATT requires that imports be treated no less favorably than the same or similar domestically produced goods once they have passed customs. This principle was extended to services in 1994 with the General Agreement on Trade in Services (GATS). Article 17 of GATS states: "Each Member shall accord to services and service suppliers of any other Member, in respect of all measures affecting the supply of services, treatment no less favorable than that it accords to its own like services and service suppliers."[27]

In the case of insurance, Japan Post Insurance is a domestic firm receiving much more favorable treatment than all private-sector insurance firms, both domestic and foreign. National treatment matters because foreign insurance companies operate in Japan. The Life Insurance Association of Japan lists 18 foreign-headquartered companies with either ownership of domestic firms or branch offices that are members of the association.[28]

A strong case can be made that Japan is in violation of its WTO commitments. Although no case has been brought before the WTO by any of Japan's trading partners, the US government continues to express concern over the lack of national treatment. For example, the 2013 annual report to Congress by the Office of the United States Trade Representative (USTR) states:

"The U.S. Government has long-standing concerns about the postal insurance company's negative impact on competition in Japan's insurance market and continues to monitor the implementation of reforms closely. A critical objective, from the U.S. Government's perspective, is to establish equivalent conditions of competition between the Japan Post companies and the private sector, consistent with Japan's WTO obligations."[29]

Furthermore, on May 21, 2010, both the US Ambassador to the WTO and EU Charge d'Affaires met in Geneva with the Japanese Ambassador and underscored the "deep level of concerns that we [both US and EU] share regarding Japan's preferential treatment of Japan Post Group in light of Japan's national treatment commitments under the WTO."[30]

The issue of national treatment and JPI is now moving to the negotiations related to the Trans-Pacific Partnership (TPP), a regional free-trade negotiation that includes 12 countries around the Pacific rim.[31] A latecomer to a process started in 2009, Japan began full participation in negotiations in August 2013. TPP is a major regional negotiation aimed at eliminating or reducing trade barriers for most goods and services among its participants. This negotiation is expected to result in an agreement that explicitly includes state-owned enterprises in rules concerning national treatment, market access, and transparency.[32]

As part of the process of being accepted as a participant by the other governments already negotiating TPP, the US and Japan held a series of bilateral confidence-building negotiations in early 2013 aimed at getting some preliminary commitment from the Japanese government on issues of importance to the United States. The result was a joint statement in April 2013 saying:

"... both governments have agreed to address level playing field issues in the TPP negotiations, as well as through parallel negotiations to the TPP talks. In addition, Japan unilaterally announced on April 12th that it will refrain from approving new or modified cancer insurance and/or stand-alone medical products of Japan Post Insurance until it determines that equivalent conditions of competition with private sector insurance suppliers have been established and Japan Post Insurance has a properly functioning business management system in place, which Japan expects will take at least several years to achieve."[33]

This addressed the issue of restraining JPI's expansion into new insurance products. However, exactly how issues related to national treatment and JPI will be handled remains uncertain since the two governments agreed that, in addition to the multilateral TPP negotiations, they would engage in bilateral negotiations to address certain non-tariff measures, including insurance, to be completed by the time the TPP agreement is concluded.[34] The announcement in July 2013 that Japan Post would increase the number of post offices offering Aflac cancer policies should be viewed in this context. That is, the Japanese government needed to demonstrate to the US government that it would approach the TPP negotiations seriously. Offering up-front unilateral concessions has, in fact, been part of the Japanese government's pattern of behavior in bilateral trade relations for the past half century.

US insurance firms officially welcomed Japan's decision to join the TPP and its agreement to engage in the bilateral negotiations regarding non-tariff measures in light of their longstanding concerns about the various competitive advantages enjoyed by JPI.[35] However, industry participants believe it is essential for any bilateral agreements regarding insurance to be incorporated in the TPP agreement to make them enforceable under TPP's dispute settlement and arbitration mechanisms.

Japan's accession to the TPP negotiations provides a means for the US government to address national treatment and level playing field issues concerning JPI through negotiations rather than through the WTO dispute resolution mechanism. It is too early to tell what the outcome will be.

Conclusion

The main conclusion of this paper is that Japan Post Insurance needs to be completely privatized and made subject to the same regulatory oversight as private insurers. The economic theory of public enterprises provides no support for public ownership of JPI. Furthermore, government ownership is a primary cause for the other issues and problems identified in this paper — the tilted playing field, potential excessive market power, inefficiency, and lack of national treatment.

Privatization must not be in name only. A fully privatized Japan Post Insurance needs to face rules that level the playing field. The implicit belief concerning the iron-clad guarantee of safety of postal life insurance needs to be ended.

The privatization proposed here goes well beyond what was envisioned even in the original 2007 plan. That is, Japan Post Holdings should be abolished and the three operating companies sold off completely to private-sector shareholders. Thorough privatization of this sort would stop cross-subsidization and force each of the three operating companies to stand on its own. Of the three, traditional mail services might deserve some government favoritism, either in the form of a subsidy or ownership. But there is no reason for either Japan Post Insurance or Japan Post Bank to benefit in any way from government favoritism relative to the rest of their respective private-sector competitors.

If JPI is not privatized, then three policies are critically important. First, the policy of restricting JPI's ability to create new policies must be maintained (as the Japanese government agreed to in its consultations with the US in April 2013). Given the tilted playing field, private-sector firms should not face a government-owned JPI that can create a wider array of competing products. Second, overall regulation must be improved by making JPI subject only to FSA regulation, and on the same terms as private-sector insurers. Third, private-sector firms should be offered the ability to sell policies through post offices on the same terms and conditions as JPI. That is, JPI should not have a nearly exclusive and low-priced access to sales outlets relative to private-sector firms. Of course, the same outcome should occur if JPI and the rest of the Japan Post Group are privatized.

Privatized and unbundled, Japan Post Insurance would be forced to compete with the rest of the insurance industry. Competing on equal terms with no special treatment by government could conceivably lead to financial problems for JPI, given its lack of experience in both competing equally in the insurance market and its lack of expertise in managing its investment portfolio. It may also result in regulatory sanctions for practices that are inconsistent with the Insurance Business Law. But these possibilities are nothing more than what all private-sector firms face in a market-based economy.

The big question in 2013 has been whether the LDP government under Prime Minister Shinzo Abe would move decisively in the direction of renewed vigor on postal privatization. Some signs indicated renewed effort, including the management change at Japan Post, the Prime Minister's statements, the pro-reform attitude of his Chief Cabinet Secretary, and the agreement to expand Aflac's access to the postal network.

How the politics of reform play out over the next several years is uncertain. Analysts are divided on the degree to which the Prime Minister and his government would pursue structural reform. Some have been encouraged by signs such as the willingness of the government to join the TPP negotiations. Skeptics, however, have argued that the government would rely most heavily on the first element of Abenomics – monetary expansion (which by mid-2013 had weakened the exchange rate and thereby encouraged exports) – rather than on structural reform.

This paper has argued strongly in favor of complete privatization and elimination of artificial advantages. But one can only hope that the reform agenda moves beyond rhetoric and results in decisive action concerning Japan Post Insurance.

Endnotes

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[5] Japan Post Insurance, "Tokuyaku Hoshō no Go-annai" [Information on Riders], http://www.jp-life.japanpost.jp/products/lineup/prd_lu_tokuyaku.html (August 20, 2013).

[6] Japan Post Group, *Annual Report 2012*, p. 58-60.

[7] Pre-October 2007 *Kampo* policies were transferred to a newly-created public corporation, the Management Organization for Postal Savings and Postal Life Insurance ("Management Organization), which in turn concluded a reinsurance contract with Japan Post Insurance. For that reason, 2012 figures for JPI's policies outstanding and face value of policies reflect the sum of JPI and Management Organization policies.

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[10] JPI, *Kampo Seimei no Genkyo 2012* [Current Conditions of JPI 2012], p. 2.

[11] "Kampo no Yado sale deadline canceled," *Japan Times*, September 29, 2009.

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[13] For further detail on availability of banking services in rural areas, see Edward J. Lincoln, "Japan Post Bank: Problematic Issues."

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[15] Postal Services Privatization Committee, "Postal Services Privatization Committee (90th Meeting Summary Minutes)," November 15, 2012.

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[16] Aflac, *Press Release: Aflac Japan and Japan Post Holdings Sign New Agreement to Expand Distribution* (July 26, 2913).

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[20] "*Kampo* As an 'Excellent Company' Is a Castle in the Sand" (in Japanese), Shukan Daiyamondo (August 24, 2002), p. 117.

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[23] The 21st Century Public Policy Institute, *Reform of the Three Postal Businesses for 21st Century - Privatization for the Utilization of the Post Office Network*, December 2000.

[24] JPI, Overview of Non-consolidated Financial Statements (May 15, 2013), p. 4.

[25] Postal Services Privatization Committee, "Postal Services Privatization Committee 90th Meeting Summary Minutes," November 15, 2012.

[26] In fiscal 2010 (ending March, 2011), the Japanese government had bonds and bills worth ¥924,360 outstanding, of which the government itself held ¥65,636 and the Bank of Japan held ¥64,510, leaving ¥794,213 held outside government. Of these, JPI held ¥64, 103 and JPB ¥146,461. *Japan Statistical Yearbook*, online, table 5-8, and Japan Post, *Annual Report 2012*, p. 160 and 180.

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[28] The Life Insurance Association of Japan, *Life Insurance Business in Japan 2011-2012*, p. 11.

[29] Office of the U.S. Trade Representative, "Japan," *National Trade Estimate Report 2013*, http://www.ustr.gov/about-us/press-office/reports-and-publications/2013/NTE-FTB (May 19, 2013).

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Table 1: Life Insurance Company Assets, March 31, 2013

as % JPI + MO	Assets(Trillion yen)	Share (%)	Company
29.03	104.1	29.0	JPI plus Management Organization
	90.5	25.2	Japan Post Insurance
	13.6	3.8	Management Organization
52.738	54.9	15.3	Nippon Life Insurance
34.294	35.7	10.0	Dai-ichi Life
25.456	26.5	7.4	Sumitomo Life
6.916	7.2	2.0	Mitsui Life
	358.6	100	Industry total

Share is the percentage of industry total assets.

All data are for March 31, 2013 except the Management Organization, which are March 31, 2012. Because it is not conducting new business, the discrepancy should be small.

Sources: Nippon Life Insurance, Financial Results for the Fiscal Year Ended March 31, 2013, p 2; Japan Post Insurance, Overview of Non-consolidated Financial Statements, p 1; Mitsui Life Insurance, Financial Results for FY2012, p 2; Sumitomo Life Insurance Company, Notice of FY2012 Financial Results (Preliminary), p 3; Dai-ichi Life Insurance Company, Summary Financial Results for Fiscal Year Ended March 31, 2013, p 1; Life Insurance Association of Japan, Overview of Life Insurance Business, March 2013; Management Organization, Fiscal Year Heisei 23 Financial Statement, p 33.

Table 2: Life Insurance Premiums, year ending March 31, 2013

Amount(billion yen)	Share (%)	Company
6482	17.0	JPI plus Management Organization
3797	10.0	Japan Post Insurance
2686	7.1	Management Organization
5343	14.0	Nippon Life Insurance
3659	9.6	Meiji Yasuda Life Insurance
3647	9.6	Dai-ichi Life Insurance
3145	8.3	Sumitomo Life Insurance
38069	100	Industry total

Share is the percentage of industry total premiums.

All data are for fiscal 2012 except the Management Organization, which are for fiscal 2011. Because the Management Organization's outstanding policies are slowly decliningg (as some are paid out), its premium income is slowly declining, leading to a slight overstatement relative to the other firms.

Sources: Nippon Life Insurance, Financial Results for the Fiscal Year Ended March 31, 2013, p 31; Japan Post Insurance, Overview of Non-consolidated Financial Statements, p 6; Meiji Yasuda LIfe Insurance Company, Soneki Kansho (Profit and Loss Statement), p 1; Sumitomo Life Insurance Company, Notice of FY2012 Financial Results (Preliminary), p 2; Dai-ichi Life Insurance Company, Summary Financial Results for Fiscal Year Ended March 31, 2013, p 8; Life Insurance Association of Japan, Overview of Life Insurance Business, March 2013.

Table 3: Life Insurance Industry Assets, March 31 2013

Amount (million yen)		Distribution (%)		Item
JPI	All others	JPI	All others	
724,181	2,850,740	0.8	1.1	Cash, Deposits
203,452	2,563,428	0.2	1.0	Call-Loans
427,417	2,597,973	0.5	1.0	Monetary Claims Bought
256,832	1,803,117	0.3	0.7	Money in Trust
72,558,181	205,686,686	80.2	80.8	Securities
12,691,554	27,553,060	14.0	10.8	Loans
85,968	6,374,090	0.1	2.5	Tangible Fixed Assets
3,514,779	5,106,666	3.9	2.0	Other Assets
90,462,364	254,535,760			Total Assets
				Securities Detail
56,472,609	92,296,633	62.4	36.3	Japanese Government Bonds
8,698,497	5,236,161	9.6	2.1	Local Government Bonds
6,483,840	18,671,357	7.2	7.3	Corporate Bonds
984	16,724,670	0.0	6.6	Stocks
902,249	55,084,225	1.0	21.6	Foreign Securities

All others is the industry excluding JPI.

Other assets are ¿¿¿ - line added because distribution did not add to 100

JPI excludes the Management Organization so as to focus on post-2007 investment behavior.

Sources: Japan Post Insurance, Overview of Non-consolidated Financial Statements, p. 4; Life Insurance Association of Japan, Overview of Life Insurance Business, March 2013.

Table 4: Japan Post Insurance Assets

Amount (March 31 of each year) (million yen)				Shares of Total Assets (Percent)				Item
2008	2010	2012	2013	2008	2010	2012	2013	
2,080,139	2,287,864	1,224,924	724,181	1.8	2.3	1.3	0.8	Cash, Deposits
788,686	353,889	597,714	203,452	0.7	0.4	0.6	0.2	Call-Loans
59,981	8,058	14,591	427,417	0.0	0.0	0.0	0.5	Monetary Claims Bought
1,861,542	175,038	242,747	256,832	1.7	0.2	0.3	0.3	Money in Trust
85,568,884	80,341,503	74,587,160	72,558,181	76.0	79.6	79.6	80.2	Securities
19,921,240	16,260,524	13,929,040	12,691,554	17.7	16.1	14.9	14.0	Loans
97,892	99,297	85,832	85,968	0.0	0.1	0.1	0.1	Tangible Fixed Assets
2,146,306	1,443,609	3,006,664	3,514,779	1.9	1.4	3.2	3.9	Other
112,524,670	100,969,782	93,688,672	90,462,364	—	—	—	—	Total Assets
								Securities Detail
68,959,931	67,617,608	59,962,157	56,472,609	61.3	67.0	64.0	62.4	Government Bonds
3,711,596	5,128,174	7,777,903	8,698,497	3.3	5.1	8.3	9.6	Local Government Bonds
10,387,483	6,937,524	6,227,510	6,483,840	9.2	6.9	6.6	7.2	Corporate Bonds
0	0	984	984	0.0	0.0	0.0	0.0	Stocks
2,509,872	658,195	618,605	902,249	2.2	0.7	0.7	1.0	Foreign Securities

Excludes Management Organization.

Sources: Table 3, plus Japan Post Group, Japan Post Group Annual Report 2008, p 211; Japan Post Group Annual Report 2010, p. 180; and Japan Post Insurance, Overview of Non-consolidated Financial Statements, p. 4.

Table 5: Return on Financial Assets

(percent, for years ending March 31 of year shown)

2009	2010	2011	2012	Ave		Return earned by
1.18	1.63	1.68	1.69	1.55		JPI
-0.02	3.20	1.48	2.06	1.68		Rest of industry

Ave is the average return of the four years 2009-11.

Return is calculated as total investment income minus investment expenses (losses on valuation, etc) divided by total financial assets (total assets minus tangible, intangible, and other assets).

Source: Japan Post Group, Japan Post Group Annual Report 2008, 2010, 2012; Japan Life Insurance Association, "Summary of Life Insurance Business (Total Figures of 43 companies)," http://www.seiho.or.jp/english/statistics/summary/ (April 29, 2013).

Figure 1

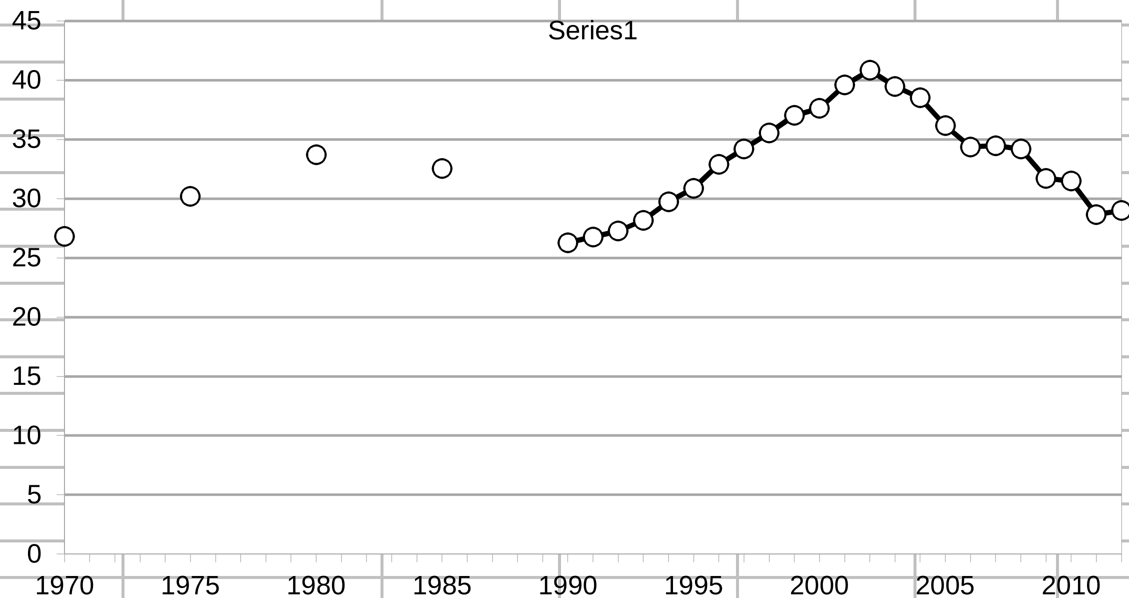
Postal Saving as a Share of Total Bank Deposits

Sources:

3) Life Companies and Postal Life data from Japan Statistical Yearbook (website, '95 pp. 462 and 483, '84 pp. 409 and 426), Finance and Insurance, tables for "Management of Assets of Postal Life Insurance" & "Policies in Force and Management of Assets of Life and Non-Life Insurance Companies"

http://www.stat.go.jp/english/data/nenkan/index.htm

Japan Post Insurance Assets as a Share of Total Life Insurance Industry Assets (Percent)



Life Insurance ---- total assets

End of Fiscal Year

Note: this comparison is total assets of PO life

		Life Companies	PO Life	MO	JPI plus MO	Postal Life Insurance Share	
1955							
1956							
1957							
1958							
1959							
1960		753	628			45.5	45.474294
1961							
1962							
1963							
1964							
1965		2243	1153			34.0	33.951708
1966							

1967							
1968							
1969							
1970		5855	2145			26.8	26.8125
1971							
1972							
1973							
1974							
1975		12896	5575			30.2	30.182448
1976							
1977							
1978							
1979							
1980		26261	13350			33.7	33.702759
1981							
1982							
1983							
1984							
1985		53871	25987			32.5	32.541511
1986							
1987							
1988							
1989							
1990		130,251	46,416			26.3	26.273158
1991		141,701	51,784			26.8	26.763832
1992		154,236	57,817			27.3	27.265353
1993		167,087	65,531			28.2	28.171079
1994		175,656	74,345			29.7	29.737881
1995		184,976	82,617			30.9	30.874126
1996		188,659	92,427			32.9	32.882107
1997		190111	98,797			34.2	34.196699
1998		191,768	105,748			35.5	35.543635
1999		190,033	111,737			37.0	37.027206
2000		191,731	115,593			37.6	37.612747
2001		184,371	120,819			39.6	39.588125
2002		179,831	124,091			40.8	40.829884
2003		184,330	120,197			39.5	39.470063
2004		191,523	119,915			38.5	38.503651
2005		209,879	118,877			36.2	36.159644
2006		220,217	115,257			34.4	34.356463
2007		213,899	112,525	20,512		38.3	34.472036
2008		205,142	106,577	18,479		37.9	34.190088
2009		318,380	100,970	16,098		35.0	31.713675
2010		320,691	100970	14221		34.4	31.485137
2011		326,953	93,689	13,597		31.5	28.655189
2012						29	29
2009-2012 industry total includes PLI							
2012 is from table 1.							