Publication	BEST
Date	April 6th, 2005
Title	*U.S. Insurers Seek More Clarity on Privatization of Japan Post's Insurance Arm*

Japanese Prime Minister Junichiro Koizumi's plan to sell the government's entire stake in the savings and insurance arm of the state postal service is drawing a mixed response from U.S. insurance industry, as representatives question whether the measure goes far enough to ensure private insurers are on an “equal footing” with the privatized entity.

Under the proposal, which Koizumi introduced as a draft bill April 4, the Japan Post would be divided into four separate units representing its mail delivery, counter services, savings and insurance services, possibly by April 2007. A holding company would float shares in each of the units beginning roughly in 2010, with a plan to sell 100% of the government stake in both the savings segment, known as Jucho, and the insurance segment, known as Kampo, by 2017.

Founded as the Postal Life Insurance Service in 1916 to serve rural and poor Japanese, Kampo since has become the world's largest life insurer and controls some 40% of the Japanese market. Together, Jucho and Kampo are estimated to have assets totalling 355 trillion yen ($1 = 108.68 yen), including 140 trillion yen of government debt.

Frank Keating, president and chief executive officer of the American Council of Life Insurers, said the group was encouraged by Koizumi's outline, and its support for a doctrine of equal footing, which the council interprets to mean that the new postal insurance entity would be governed by the same laws and regulations as those currently applied to the private sector. This doctrine is even more crucial given Kampo's dominant market position, Keating said.

“No government guarantees should apply to any insurance policies issued by the new insurance entity,” Keating said in a statement. “Taxes paid by the new entity should be the same as those which apply to the private sector. A safety-net system should be mandated to which contributions will be made by the new insurance entity on a par with the requirements faced by the private sector. Cross-subsidies that are forbidden to private sector insurers should be prohibited to the new entity, as well.”

However, in concessions to privatization's opponents, the plan doesn't prohibit cross-holdings between the four operating entities and the holding company, and it calls for the Japanese government to maintain a stake of at least 33% in the holding company, which would continue to control the mail delivery and counter services units. All current post offices and services, and the public service status of Japan Post's 270,000 permanent employees, also would be guaranteed.

A long-time goal of the prime minister, who has made it the highest priority of his remaining 18 months in office, the privatization plan has in the past faced harsh criticism from members of the Liberal Democratic Party, and a study group convened by “party elder” Tamisuke Watanuke currently is meeting to look at Koizumi's proposal.

The ACLI earlier had lobbied the U.S. Trade Representative to talk with officials in Tokyo about preventing Kampo from issuing new products while it still enjoyed its competitive advantage (BestWire, Aug. 23, 2004), and Keating reiterated that position in the wake of the Koizumi draft.

“Clear benchmarks should be established for determining this status (of equal footing), and a transparent process created in which Japanese and U.S. private sector insurance companies have a meaningful opportunity to participate,” Keating said. “This is essential to avoid a situation in which the private sector sustains damaging market loss during the period in which equal footing is being attained because of long-standing competitive advantages accrued by Japan Post.”

Keating also called for full disclosure of the accounts of all postal entities created by the legislation -- to ensure there are no hidden subsidies from the postal group to the new postal insurer -- and advocated complete transparency of the disbursement activities of the proposed Regional-Social Contribution Fund.

This isn't the first call by the ACLI for greater disclosure and equal-footing provisions in any planned privatization measure for the Japan Post. In December, the ACLI joined in a coalition with the American Insurance Association, the Canadian Life and Health Insurance Association, the Coalition of Service Industries, the Comite Europeen des Assurances, the Council of the European Business Community in Japan, the U.S. Chamber of Commerce and the U.S. Japan Business Council to pressure the Japanese government to establish “a level playing field” between Kampo and its private-sector competitors.

AIA remains concerned about “any advantages the privatized Kampo will take into the market,” said David Snyder, the association's vice president and assistant general counsel.

“We have long expressed concern over the privileged status of Kampo, as it is a part of the postal system, and argued successfully against its expansion in property and casualty insurance,” Snyder said. “It should be subject to the regulation that all private insurers are and should not provide any property and casualty insurance whether or not privatized. We support ACLI on its position regarding the privatization of Kampo and its offering of life insurance.”