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**American Chamber of Commerce in Japan
American Council of Life Insurers
Association of British Insurers
Canadian Life and Health Insurance Association
Canadian Services Coalition
Coalition of Service Industries
The Council of Insurance Agents & Brokers
US- Japan Business Council**

The list of organizations indicated above (“Organizations”) welcome this opportunity to submit comments in response to the Postal Privatization Commission’s request for comments regarding its “Findings Regarding the Investigation and Deliberation Over New Business Operations by the Postal Savings Bank and Postal Insurance Corporation,” (“Findings”) dated December 20, 2006.

Global Best Practices and Compliance with International Trade Obligations

Postal privatization, which the Government of Japan has taken up on its own volition, has the potential to bring about important benefits to the Japanese economy. But if it is implemented poorly, there is a danger of distorting Japan’s financial system and obstructing market growth to the detriment of Japanese consumers and companies in Japan. Accordingly, the Organizations believe that application of global best practices for the privatization of state-owned enterprises -- as identified by the OECD, IMF, World Bank, WTO, and other organizations, drawing from privatization experiences worldwide -- is essential to achieving a successful privatization of Japan Post, especially with regard to the new business operations for the postal financial institutions during the transition period, which is the primary focus of the Findings.

The establishment of an effective regulatory framework that brings about a level playing field must be consistent with Japan’s “national treatment” obligations under the General Agreements on Trade in Services (GATS), and Article 2 of the Postal Privatization Law (Basic Principles) which requires Japan to implement “measures to ensure equivalent conditions of competition [between the privatized entities] and other companies engaged in like business operations.” Unfortunately, the Commission, in its Findings, has chosen to substantially ignore this key global best practice and Japan’s international obligations -- conspicuously absent are any references to the “equal competitive conditions” principle from Article 2 of the Postal Privatization Law and Article 1, Section 2 of the Cabinet’s “Basic Policy on Postal Privatization.”

Establish an effective regulatory framework that brings about a level playing field

In its Findings, the Commission recognizes that, “the financial intermediation conducted by the government-owned businesses *Yucho* and *Kampo* through reliance on government guarantees and other privileges has, as their scope bloated in scale, distorted the functions of the financial market, which should allocate risks and returns based on economic rationality.” (Section 1(1)). Establishment of an effective regulatory framework that brings about a level playing field is the only means by which to eliminate this distortion and ensure a sound regulatory environment and appropriate consumer protection. The key elements of such a regulatory framework include:

- Effective measures to remove the implicit or *de facto* government guarantees, including sale of shares to a reasonable level;
- Measures to ensure that the postal financial institutions are required to meet the same regulatory requirements as private-sector financial institutions, including a comprehensive FSA inspection immediately upon privatization;
- Application of the same tax requirements as those of the private sector; and
- Open access to the government-controlled post office distribution channels. Measures to prevent abuse of market power and cross-subsidization including:
 - measures to ensure that transactions between the Postal Insurance Corporation and the Independent Administrative Public Corporation to Manage Postal Savings/Postal Life Insurance, including their reinsurance contracts, will be executed on an arms-length basis to prevent cross-subsidization;
 - measures to prevent the postal financial institutions from unfairly leveraging their size to distort the market.

Any decision to allow the postal financial institutions to expand their operations in the market prior to effective implementation of these measures will exacerbate the market distortions caused by the postal financial institutions and is inconsistent with Japan's international obligations. Unfortunately, in its Findings, the Commission fails to clearly spell out its determination to require implementation of measures to ensure equivalent conditions of competition. Instead, the Commission stated that "...leading up to the IPO [Initial Public Offering], it will be necessary to demonstrate business performance for a specified period of time. With regard to this, while there have been comments that [the postal financial institutions] should first increase management efficiency to gain investors' confidence; there have also been comments that growth potential will be essential for a positive evaluation as an investment."

However, any policy decisions to apply favorable competitive conditions to a government-owned corporation that are different from those applied to the private sector or designed to strengthen that corporation's position when its stock is listed will severely undermine confidence in the Japanese financial system, sending the international community the unfortunate message that Japan has returned to the convoy era regulatory system of picking winners and losers.

If the postal financial institutions are allowed to expand into new businesses prior to securing equivalent conditions of competition, there is a possibility that the Government of Japan's current violation of its National Treatment obligations under the GATS may be exacerbated. Depending on the substance of the new business operations, it could raise a serious problem in international trade relations.

Further, any new business expansions which ignore national treatment or other legal obligations will create a serious legal risk. Because investors value newly-listed companies with serious legal risks unfavorably, it is essential to avoid such risks in order to achieve an effective IPO.

The Organizations Welcome the Commission's Call for Strong Consumer

Protection, including Rigorous FSA Oversight and Internal Auditing and Compliance Systems

On the other hand, the Organizations welcome the Commission's recognition in the Findings that:

- “Financial administration is fundamentally undertaken from the perspective of consumer protection. Accordingly, it is naturally expected that financial administration will consist of conducting rigorous inspection and supervision of the two financial institutions in the same manner as other private financial institutions from a consumer protection perspective.” (Section 1(6)).
- “[T]he two financial institutions after privatization should also prepare [internal auditing and compliance] systems equivalent to private financial institutions’ systems.” (Section 1(5)).
- Even in terms of internal controls, etc., many challenges exist for *Yucho* and *Kampo* as private financial institutions (Section 1(2)).

The Organizations agree with these statements. Consumer protection is an important goal. Accordingly, the Organizations welcome efforts to encourage rigorous FSA inspections and to strengthen the internal controls of the postal financial institutions, including measures to ensure that they are up to the same standards required of private financial institutions prior to any business expansion that would increase competition with private sector financial institutions. Indeed, the very purpose of financial regulation is to promote the healthy development of the economy and protect policyholders, depositors, and others by securing sound and proper operation of financial institutions (see, e.g., Insurance Business Law, Article 1; Banking Law, Article 1). The Commission therefore must be careful not to recommend any new business expansions that could harm consumers by distorting the operation of the financial system or be inconsistent with sound and proper operation of the postal financial institutions.

Basic Points of View

Although the Commission will express its opinion regarding each individual application for new business operations by the two financial institutions, in its Findings, the Commission expressed its views or guiding principles regarding new business operations for the postal financial institutions beforehand to, among other things, provide predictability to their competitors.

Therefore, the Commission has organized its four basic views for the transition period and actions for the near future as indicated below.

No Convenience Without Sound Regulation and Sound Operations

The first basic view regards “Heightening User Convenience,” which highlights that the Commission considers that “the most important perspective when considering new business operations is not the coordination of interests between the two [postal] financial institutions and related industries, but the heightening of convenience that would be brought about to users by

the improvement in these financial institutions' services." (Section 2(1)). However, the Organizations believe that when considering new business operations, the postal financial institutions should focus on having in place sound internal controls including rigorous auditing and compliance systems equivalent to the level of systems required of private financial institutions. The Commission recognizes that the presence of the privileged postal financial institutions have distorted the functions of the financial market, and that faced with an aging society and low birthrate, it is essential that Japan's financial market function effectively to maintain a dynamic economy. Accordingly, any measures that would increase market distortions, such as allowing the postal financial institutions to expand into new businesses prior to having proper internal control and compliance systems in place, etc., would clearly not contribute to the convenience of consumers and would simply put at risk the soundness of the financial market. Indeed, past failures of financial institutions in Japan and elsewhere clearly demonstrate that customers are ultimately inconvenienced when financial institutions are allowed to appeal to consumers in the short-term by providing products and services in an unsound manner.

The Organizations Welcome the Commission's Call for Rigorous ALM

The second basic view regards "The Scale of the Two [Postal] Financial Institutions' Balance Sheets." The Organizations welcome the Commission's view that the postal financial institutions should follow rigorous ALM and that the size of *Yucho* and *Kampo* be determined based on market principles. This view is consistent with providing a uniform, sound regulatory environment essential to the future growth of Japan's financial sector.

The Sequential Order of New Businesses Should be Determined by the Establishment of a Level Playing Field Prior to any Expansion into New Businesses

The Findings' third basic view regards the "Sequential Order Regarding the Implementation of New Business Operations." The Organizations believe that the sequential order of new businesses should be determined by the establishment of a level playing field prior to any expansion into new businesses. Any other approach would exacerbate the market distortions caused by the postal financial institutions and be harmful to Japanese consumers and sound development of Japan's financial sector. Establishment of a level playing field would include measures to: 1) remove any de facto government guarantees; 2) meet the same regulatory requirements as private-sector insurance companies; 3) apply the same tax requirements as those of the private sector; 4) open access to the postal distribution network; and 5) prevent abuse of market power and cross-subsidization. From the standpoint of protecting policyholders and the public, it is particularly important that the postal financial institutions are found to be in full compliance with all legal and regulatory requirements applicable to private institutions before they receive authority to pursue any new lines of business, and are not granted exemptions or waivers with respect to these requirements.

Consumer Interests will not be Promoted if Competitors are not Treated Equally and Competition is Distorted

The fourth basic view regards "Securing Appropriate Competitive Relationships." Here, the Findings emphasize that the issue of securing appropriate competitive relations with the postal financial institutions' competitors should be considered "from the perspective of whether they

contribute to the heightening of users' convenience," and that "there should not be ex ante restrictions on competition, but rather ex post securing of appropriate competitive relations." (Section 2(4)).

In determining whether to allow the postal financial institutions to expand their businesses, "appropriate competitive relations" should be considered from the perspective of whether a level playing field exists between the postal financial institutions and their private-sector competitors. Consumer interests will not be promoted in the long run if competitors are not treated equally and competition is distorted. Indeed, to achieve the benefits of postal privatization, it is essential that equivalent conditions of competition be achieved prior to allowing the postal financial institutions to increase their competition in the market based on unfair advantages gained through special government privileges.

Transparency

The Organizations applaud the Commission's efforts to date to ensure transparency regarding its role in the privatization process and urge the Commission to help ensure transparency throughout the process. The Commission in its Findings has stated that, "the Post Office Corporation should establish sound management and manage post offices – including the selection of financial products to sell – with its own management judgment, based on economic rationality and under the principle of private autonomy." (Section 3(3)). The Organizations agree that such decisions should be made based on economic rationality. However, given that the Post Office Corporation will continue to be government-controlled even after privatization, to ensure that its decisions are indeed based on economic rationality, it is essential that the Post Office Corporation issue clear selection criteria and provide public explanations regarding its selection decisions.

Conclusion

The Organizations believe that establishing equivalent conditions of competition prior to any business expansion is essential to achieving a successful privatization which ensures consumer protection and convenience and sound development of Japan's financial markets. While these comments do not deal with every issue raised by the Commission's Findings, it is the Organizations' hope that they will play a constructive part in the Commission's development of its opinion regarding these important issues. The Organizations look forward to working with the Commission in the future as it continues to deliberate on important issues regarding postal privatization, including its consideration of new business operations for the postal financial institutions.