Pacific-Basin Finance Journal 21 (2013) 967–983

Contents lists available at SciVerse ScienceDirect

Pacific-Basin Finance Journal

journal homepage: www.elsevier.com/locate/pacfin

# Measuring the effect of postal saving privatization on the Japanese banking industry: Evidence from the 2005 general election ☆

Michiru Sawada *

*Nihon University College of Economics, 1-3-2 Misaki-cho, Chiyoda-ku, Tokyo 101-8360, Japan*

ARTICLE INFO

*Article history:*
Received 24 February 2012
Accepted 23 July 2012
Available online 1 August 2012

*JEL classification:*
G14
G21
G28

*Keywords:*
Bank privatization
Intra-industry analysis
Postal savings system
Rival's reaction
Japan

ABSTRACT

In this study, we empirically investigate the effect of the privatization of Japan's postal savings system, the world largest's financial institution, on the country's banking industry, focusing on the general election of the House of Representatives on September 11, 2005. Econometric results show that the privatization of the postal savings system significantly raises the wealth of mega banks but not that of regional banks. Furthermore, this privatization increases the risk to all categories of banks, and the banks that are dependent on personal loans increase their risk in response to the privatization of the postal savings system. These results suggest that incumbent private banks might seek new business or give loans to riskier customers that they had not served before the privatization to gear up for the entry of the Japan Post Bank (JPB) into the market for personal loans. Hence, privatization of the postal savings system boosts competition in the Japanese banking sector.



## 1. Introduction

Government ownership of banks is pervasive around the world (La Porta et al., 2002). State-owned banks are generally less efficient than private banks because they do not always pursue profit maximization but

☆ I would like to thank Professor Sumio Hirose, Masaru Inaba, Sinjiro Miyazawa, Yoshihiro Ohashi, Ryoko Oki and Daisuke Tsuruta and other participants at the Finance and Economics Workshops (Nihon University, March 2011) for their helpful comments and suggestions. Comments and suggestions of an anonymous referee were very helpful. All errors are the authors' responsibility.

* Tel.:+81 3 3219 3399.
*E-mail address:* sawada.michiru@nihon-u.ac.jp.

0927-538X/$ – see front matter © 2012 Elsevier B.V. All rights reserved.
http://dx.doi.org/10.1016/j.pacfin.2012.07.004

instead frequently operate on political and social considerations.[1] To improve the efficiency of state-owned banks, governments have promoted their privatization in many developing and developed countries since the late 1980s.[2] Most studies on bank privatization have confirmed that bank performance more or less improves after privatization (Clarke et al., 2005). Furthermore, some studies find, through intra-industry analyses, that bank privatization can increase competition in the banking sector (Otchere and Chan, 2003; Otchere, 2005, 2009; Chen et al., 2005).

In Japan, state-owned financial institutions also play important roles as financial intermediates. The postal savings system (PSS), a government-owned depository institution, collected huge funds from households. The deposits in the PSS peaked at 260 trillion yen (about $2.4 trillion) in 1999, which corresponded to 37% of Japan's total household deposits (Imai, 2009a). However, as a result of the strong backing by the then prime minister Junichiro Koizumi, privatization of the postal system was formally accepted in October 2005, when the postal privatization bills were passed in the Diet. In October 2007, according to the privatization bills, the independent public corporation Japan Post, which managed the postal system, was divided into four companies: a postal savings bank, an insurance company, a mail delivery company, and a post office network management company. The first two companies (the postal savings bank and the insurance company) will be fully privatized by 2017.[3]

In this paper, we empirically investigate how the privatization of Japan's PSS, the world's largest financial institution, affects the country's banking industry. In particular, we estimate its wealth and risk effects on the incumbent private banks in Japan by using the event study methodology. In the analyses, we use the general election of the House of Representatives on September 11, 2005, as the event. This election is considered a very valuable opportunity to measure the effect of the PSS's privatization because it was essentially a referendum on the privatization of the postal system, including the PSS (Imai, 2009a). Moreover, following the election, the ruling Liberal Democratic Party (LDP) and its coalition partners had more than a key two-thirds majority in the House of Representatives, which immediately indicated that the PSS would be privatized. We can understand the effect of the PSS's privatization on the Japanese banking sector by observing the reaction of the stock prices of the incumbent private banks to the election result.

There are some studies on the effect of the privatization of Japan's PSS. Vollmer et al. (2009) investigates the details of the institutional background and the recent transformation of the Japanese PSS and conducts a case study on the privatization of Japan Post Bank, although it does not directly analyze the effect of postal saving privatization on the Japanese banking industry. They find that the market share of deposits in PSS decreases sharply from 1997 to 2008. Oohama and Asai [*iBusiness*, 2011 September, pp. 244–247] conduct a simple analysis of whether PPS's privatization has economic value by investigating the abnormal returns of regional banks around the time of the general election of 2005. They find that the abnormal returns for regional banks are negative and statistically significant and that those in rural areas are statistically significant, while those in urban areas are not. Our study differs from that of Oohama and Asai (2011) in that our study conducts more detailed and comprehensive analyses. First, we perform multivariate analyses, risk effect analyses, accounting analyses, tests of some important hypotheses (differential information effect and intra-industry effect) and tests of other important events, which are not performed by Oohama and Asai (2011).[4] Second, our study includes all listed banks (mega banks and city and trust banks as well as regional banks) as samples. It is considered important because large banks such as mega banks are exposed to direct competition with PSS at the nationwide level, especially in the cites, since PPS has nationwide branch network in both cities and rural areas (Kuwayama, 2000; Imai,

[1] Recent studies provide much evidence of political influence on the lending behaviors of state-owned banks (Sapienza, 2004; Dinc, 2005; Khwaja and Mian, 2005; Imai, 2009b).

[2] Numerous literature have studied bank privatization in various countries—especially the special issue of the *Journal of Banking and Finance* (issue no. 29, 2005), that includes cross-country, regional, and individual country studies of developing countries. With respect to developed countries, Otchere (2009) conducts cross-country analyses.

[3] As stated below, in December 2009, the opposition Democratic Party of Japan and its coalition partners formed the new government following their overwhelming victory in the general election of September 2009. They froze the planned sale of the shares of Japan Post Bank and Japan Post Insurance, which had already been decided upon in the postal privatization bills.

[4] Furthermore, Oohama and Asai (2011) simply consider the general section of 2005 as a policy announcement. However, the reason for event selection is not sufficiently explained, especially because it does not consider institutional factors with Japan's legislative system. On the other hand, including those factors, our study provides detailed explanations about why the general election of 2005 is as an ideal event to measure the effect of the PSS's privatization on the Japanese banking sector (see Section 4).