

Japan Equity Strategist

Room for change in asset allocations of Japan Post Insurance, Japan Post Bank

- **Ample room to buy more equities** — Japan Post is expected to list in 2015. The weightings of equities within total securities portfolios at both Japan Post Insurance and Japan Post Bank are much lower than at private-sector competitors, while the weightings of JGBs are much higher. We think these institutions may decide to sell JGBs and buy equities to improve profitability ahead of the listing. Given that both institutions have sizeable assets, this means considerable potential buying demand for equities.
- **Japan Post to list soon** — The Fiscal System Council, an advisory body to the Minister of Finance, released a report titled *Disposal of Equities Held by Japan Post* on June 5. The government appears to be proceeding with preparations for the listing of Japan Post, which we expect in 2015 (see our June 6 report, [Deep Dive: Postal privatization in Japan - Ramifications for financial and transport sectors](#)).
- **Japan Post Insurance's asset allocation** — As of end-December 2013, JGBs accounted for 62.2% of Japan Post Insurance's total assets, well above the 39.5% for life insurers other than Japan Post Insurance. Japanese equities accounted for just 0.5% at Japan Post Insurance, well below the 6.5% of other life insurers. We think Japan Post Insurance may elect to reduce the allocation to JGBs and increase that to equities to improve profitability ahead of the listing. We estimate that, if Japan Post Insurance were to change its asset allocation to one similar to other life insurers, it would need to sell ¥19.7trn of JGBs and buy ¥5.3trn of equities.
- **Japan Post Bank asset allocation** — JGBs accounted for 75.2% of Japan Post Bank's overall securities portfolio as of end-March 2014, compared with 48.9% at private-sector Japanese banks as of end-December 2013, according to the BoJ's Flow of Funds Accounts. However, the weighting of domestic equities was just 1.4% (assuming that the weighting within money held in trust was the same 82% as for Japan Post Insurance), which is well below the 8.4% for private-sector Japanese banks according to the BoJ figures. For Japan Post Bank to reduce its weighting of JGBs to the same level as domestic banks according to BoJ statistics would require it to sell ¥44.1trn of JGBs. We think that much of Japanese banks' holdings of equities is in strategic cross-shareholdings. We estimate that if Japan Post Bank were to increase its cross-shareholdings in order to deepen business relationships with large companies and increase the weighting of equities to half that of Japanese banks, it would need to buy some ¥4.7trn of Japanese equities.
- **JGB selling unlikely to disrupt market** — Overall, we think both Japan Post Insurance and Japan Post Bank are likely to sell JGBs and buy equities in order to improve their profitability. However, excessive selling that would push down JGB prices significantly would in fact have a negative impact on profitability, so any change in portfolio asset allocations is likely to be made gradually.

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Figure 1. Room for change in the asset weighting of Japan Post Insurance: Weighting of JGBs much higher than at peers, low weighting of domestic equities and overseas securities

	Assets of Japan Post Insurance (¥bn)	% of total A	Assets of firms other than Japan Post Insurance (¥bn)	Weighting at life insurers other than Japan Post Insurance (%) B	C=B-A	Value conversion (Japan Post Insurance assets x C) (¥bn)
Cash & cash equiv.	864	1.0	2,525	1.0	0.0	12
Domestic equities	424	0.5	16,294	6.5	6.1	5,257
Japanese government Bonds	54,033	62.2	98,395	39.5	-22.7	-19,699
Japanese local government bonds	9,303	10.7	5,820	2.3	-8.4	-7,261
Corporate bonds	6,570	7.6	16,718	6.7	-0.9	-770
Foreign equities	1,310	1.4	49,914	20.0	18.6	16,187
Loans	11,558	13.3	31,682	12.7	-0.6	-502
Other securities	2,764	3.2	27,680	11.1	7.9	6,887
Total	86,825	100.0	249,028	100.0		

Note: Based on the documents *Japan Post Insurance asset management conditions* and *Market value report for marketable securities, etc.*, as of end-December 2013. Weightings for life insurers other than Japan Post Insurance calculated by deducting from totals for each asset class for life insurers in the BoJ's Flow of Funds Accounts the totals for Japan Post Insurance. Treasury discount bills are included in JGBs held by life insurers other than Japan Post Insurance. Industrial bonds, government institution bonds, and debentures are included in the corporate bonds of life insurers other than Japan Post Insurance.
Source: Japan Post Insurance, BoJ, Citi Research.

Figure 2. Room for change in the asset weighting of Japan Post Bank: Weighting of JGBs in marketable securities much higher than at domestic banks, low weighting for other securities, which include domestic equities and overseas securities

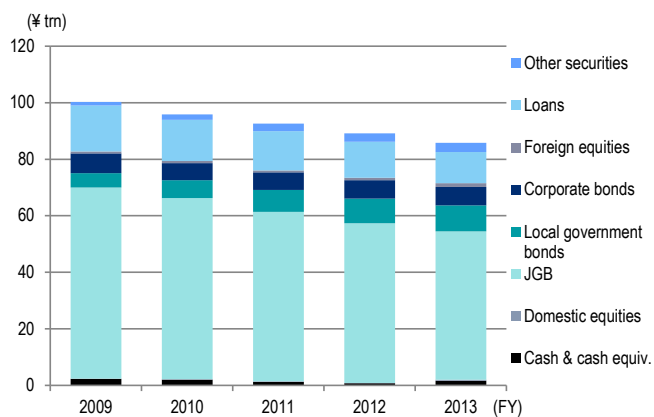
	Assets of Japan Post Bank (¥bn)	% of total	Weighting within marketable securities (%) (A)	Assets of domestic banks (¥bn)	Weighting within marketable securities at domestic banks (%) (B)	C=B-A (B/2-A for domestic banks)	Value conversion (Japan Post Bank marketable securities total x C) (¥bn)
Cash & cash equiv.	19,464	9.6					
Domestic equities	2,395	1.2	1.4	23,239.3	8.4	2.8	4,707
Japanese government Bonds	126,391	62.4	75.2	134,635.4	48.9	-26.2	-44,107
Japanese local government bonds	5,550	2.7	3.3	13,429.1	4.9	1.6	2,657
Corporate bonds	11,050	5.5	6.6	13,505.7	4.9	-1.7	-2,796
Other securities	22,731	11.2	13.5	76,762.2	32.8	19.3	32,437
Loans	3,076	1.5					
Others	11,855	5.9					
Marketable securities total	168,117			261,572			
Total	202,513	100.0					

Note: Japan Post Bank asset weighting as of March 2014. Amount booked on balance sheet. Domestic equities calculated on the hypothesis that 82% (the rate for Japan Post Insurance) of money held in trust is in domestic equities. Marketable securities total is the total of domestic equities, JGBs, Japanese local government bonds, corporate bonds, and other securities. Domestic banks in the Figure are those domestic banks in the BoJ's Flow of Funds Accounts. Asset weightings for domestic banks in the Flow of Funds Accounts are as of end-December 2013. JGBs at domestic banks include treasury discount bills. Other securities is the total of overseas securities investment and securities other than equities from which JGBs, treasury discount bills, Japanese local government bonds, and industrial bonds have been deducted.
Source: Japan Post Bank, BoJ, Citi Research.

Points to note

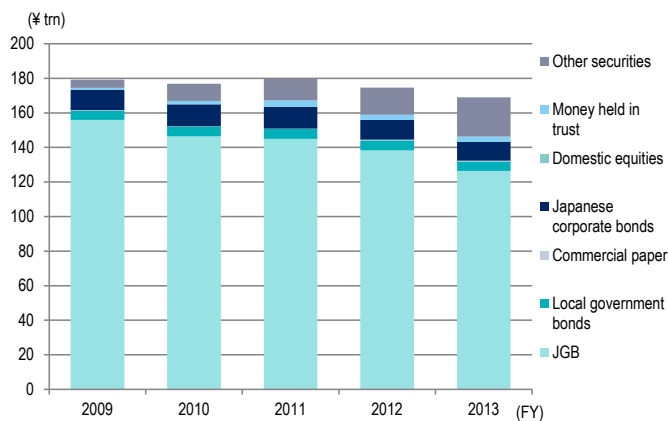
The numbers for the peers for Japan Post Insurance and Japan Post Bank in the above calculations are taken from the BoJ's Flow of Funds Accounts. Currently, the most recent Flow of Funds Accounts is as of end-December 2013, one quarter adrift from Japan Post Bank, for which the data are as of end-March 2014. The line items in the disclosures of Japan Post Insurance and Japan Post Bank do not necessarily match and these are rough calculations. Moreover, in comparing peers' numbers, we are doing so to see what room there is for change in asset allocation, so the numbers for Japan Post Insurance and Japan Post Bank do not need to be the same as those of peers.

Figure 3. Asset balance at Japan Post Insurance: Contracting by around ¥3trn a year



Note: Based on the documents *Japan Post Insurance asset management conditions* and *Market value report for marketable securities, etc.*
Source: Japan Post Insurance, Citi Research.

Figure 4. Balance of marketable securities, etc., at Japan Post Bank



Note: Amount booked on the balance sheet. We believe some money held in trust is invested in domestic equities.
Source: Japan Post Bank, Citi Research.

Appendix A-1

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