# INNOVATING DIGITAL FINANCIAL SERVICES FOR POSTS

A cross-sectional study on the potential and pathways for innovations in postal digital financial services

UPU
UNIVERSAL POSTAL UNION

Published by the Universal Postal Union (UPU)
Berne, Switzerland

Printed in Switzerland by the printing services
of the International Bureau of the UPU



**AUTHOR:** Universal Postal Union

**TITLE**: Innovating Digital Financial Services for Posts, 2021

**ISBN**: 978-92-95116-11-5

**DESIGN**: Sonja Denovski, UPU graphic arts unit

**CONTACT**: info@upu.int

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# EXECUTIVE SUMMARY

In the last two decades, a considerable number of people have become formally financially included. The evolution of digital technology has contributed to improvements in financial inclusion.

The rapid changes in the financial inclusion landscape have impacted all players in the ecosystem. New entrants (mobile network operators (MNOs), fintechs, microfinance institutions) are setting the stage for innovation in the digital financial services (DFS) space, compelling traditional players, such as Posts[1], to play catch-up to meet customer needs. These drastic changes and rapid innovations in the financial inclusion space have left most Posts at a crossroads: either seek to transform, or risk being edged out of business by the competition.

To keep up with the changing landscape, Posts have accelerated the push for recognition of their role in financial inclusion through policy and regulatory advocacy. Posts are also now seeking partnerships with MNOs, fintechs, banks, and microfinance institutions, to complement the agency approach to reach out to the underserved and unserved. New business models have emerged, such as:

Posts provide support services to digital financial service providers (FSPs). Posts play the role of cash merchants and cash-in/cash-out agents or partner with banks, microfinance institutions, insurers, and MNOs to offer the services on behalf of the partnering institutions.

Posts as direct digital FSPs. In this model, the Posts transform into postal savings banks or fully fledged banks to provide several financial products. Further, the Posts process domestic and cross-border payments.

Postal operators bear the burden of universal service obligation requiring them to offer affordable and inclusive postal logistics services to every citizen in a member country, regardless of their income or location.

It is therefore unsurprising that Posts are among the oldest institutions with an established physical delivery network. They rely on an extensive, cross-country logistic network, augmented by last-mile coverage through postal carriers to bring postal services, and increasingly postal financial services[2], to citizens' doorsteps.

As part of the Sustainable Development Agenda, governments have been giving greater priority to social, financial and digital inclusion. As they increasingly acknowledge the importance of financial inclusion, they have realized that the **postal network can address three issues faced by low- and moderate-income populations: accessibility, affordability and eligibility.**

In most member countries, the postal network is government-owned and operated, providing a rapid mechanism to achieve objectives for national social and development policies. Governments and policymakers recognize that Posts have a unique footprint in a country – they often possess the largest capillary network of physical outlets, connected by human resources and infrastructure.

**The postal network presents a ready-made channel to reach vulnerable, underserved and marginalized populations.**

**Posts have the potential – and ability – to transform economies to be more equitable and inclusive,** especially when it comes to furthering financial inclusion through access to DFS.

Of approximately 5.4 billion adults worldwide, 1.5 billion or 28% access formal financial services through the post office. In this way, governments are already using postal operators to expand access to financial services.

1 Throughout this study, "Posts" refers to designated operators (DOs) in accordance with article 1.7 of the UPU Constitution, where a DO is any governmental or non-governmental entity officially designated by a UPU member country to operate postal services and to fulfil the related obligations arising out of the Acts of the Union on its territory. The postal network refers to a single, global postal network for exchange of letters, parcels, and financial services between DOs of the UPU's 192 member countries.

2 The expression "postal financial services" may refer to: i) postal payment services as currently defined and regulated in the UPU Acts; ii) other postal services of a financial character defined and regulated in the same Acts (now or in the future); and iii) other financial services provided by DOs under national mandate or, as the case may be, other postal supply chain stakeholders.

In contrast to Posts, and to compete with their extensive network, new entrants use very sophisticated and agile approaches to reach the underserved and unserved populations. Although Posts are well-positioned to contribute to financial inclusion, they are not harnessing their full potential in this space.

Successful Posts have defined the following four key strategies:

**Re-invent the customer journey.**

**Leverage the power of data.**

**Redefine the operating model.**

**Build digital-driven postal operations.**

Posts have realized that the proprietary, **legacy systems that once underpinned their services and operations are now so cumbersome that they limit innovation.**

Key innovation drivers that could help postal operators architect their future operating models include:

**Establishing an ecosystem beyond postal services.**

**Integrating physical and digital processes.**

**Re-orienting transaction flows.**

**Reimagining the core functions of the Post.**

Some advanced Posts have experimented and extracted lessons on a number of use cases for providing DFS to underbanked populations. These use cases include:

**Digital savings and deposits.**

**Domestic and international remittances.**

**Payment and cash-in/cash-out services.**

**Micro-insurance and micro-investment.**

**Digital credit.**

**Other financial and non-financial services, such as financial and digital literacy.**

Our recommendations for designated operators to build and deliver DFS are to:

**Prepare** a sustainable, compelling business plan for DFS, considering current / prospective national mandates.

**Strengthen** technology, internal processes, and human capital.

**Innovate** processes to cater to the unique needs of customers.

**Focus** on the delivery of a first-class, secure and seamless experience for end users.

**Support** the provision of non-financial services such as financial and digital literacy.

Our recommendations for policymakers to facilitate Posts' DFS innovations are to:

**Engage** and enhance the role of Posts in the formulation and implementation of national development policies.

**Foster** a robust enabling environment to facilitate DFS.

**Promote** a competitive environment that allows for new players and new approaches to offer digital financial services.

**Strengthen** regulations promoting consumer protection.

**Enable** competition and promote a level playing field.

**Support** Post–fintech partnerships through regional and national accelerator programmes in postal DFS.

# INTRODUCTION

# Background and context of the study

Posts have been offering their customers basic financial services for hundreds of years.[3] As the nature of communication has evolved from letter post to electronic formats, Posts too are adapting and expanding their services to meet the needs of an ever-changing society. This includes an increased focus on parcel post to facilitate e-commerce, as well as social and financial services to help achieve national social development policies.

As part of the Sustainable Development Agenda, in recent years governments have been prioritizing social, financial and digital inclusion. To support governments in achieving these goals, postal operators will need to rethink their business model to remain viable as they enhance access to financial services for millions of customers.

Postal operators remain strategically placed to support universal financial inclusion, especially for the rural and low- and moderate-income segment. The vast infrastructure Posts have established over the years can facilitate supply and distribution models for various financial sector players.

Established in 1874, the Universal Postal Union (UPU), a United Nations specialized agency headquartered in Berne, Switzerland, facilitates coordination among postal sector players and works in an advisory, mediation, and liaison capacity.

The UPU serves as a forum for sharing financial inclusion strategies and knowledge on best practices and lessons among its 192 active member countries. Through the postal network and its various financial inclusion initiatives, the UPU supports governments in attaining their national inclusion strategies and helps them achieve the UN Sustainable Development Goals.

The UPU recognizes the importance of innovations, especially given the scope and speed of evolutions in technology, customer behaviour, and regulations, all of which are rapidly impacting the financial services landscape.

The UPU's Global Panorama on Postal Financial Inclusion 2016 highlights the business models Posts use to deliver financial services. Posts are either:

- Innovating to offer services as cash merchants and facilitate proprietary domestic and cross-border payments; or
- Partnering with financial service providers and offering financial services to the masses; or
- Transforming into postal savings banks and offering savings and insurance services; or
- Transforming to become fully-fledged postal banks.

3 Source: Global Panorama on Postal Financial Inclusion 2016, UPU.

To promote peer learning on innovation among Posts, the UPU commissioned this study with the following specific objectives:

1 **Identify the levers and drivers of innovation in digital financial services:** Identify levers that drive innovation in the inclusive financial sector. Assess what can drive innovations that will likely impact and shape the postal financial services industry in the immediate, medium, and long term.

2 **Create an innovation framework for DFS for Posts:** Create a conceptual framework that can guide DFS innovations for Posts especially in emerging and transitioning economies.

3 **Derive key lessons on DFS innovations for Posts:** Consolidate key lessons on the main drivers and levers of DFS for Posts in emerging and transitioning economies and adapt this framework as needed.

4 **Formulate recommendations for Posts on DFS:** Suggest how Posts can best leverage innovative approaches and practices to meet their customers' needs as they offer DFS.

5 **Formulate recommendations for regulators and policymakers:** Make recommendations to regulators and policymakers to create a conducive environment for Posts to offer DFS.

The review focused on capturing external and sectoral experiences in DFS with recommendations on how to adapt these for Posts to help them transform so as to remain relevant to the market.

This report details various recommendations to enhance postal DFS and highlights the potential opportunities and business models, covering institutional improvements required, plausible collaborative solutions, regulatory changes required, and technology solutions.

# Study conceptual framework

Innovations in digital finance provide the opportunity for Posts to diversify and deepen access to, and use of, financial services – especially in low-income and financially vulnerable populations. Digital finance enables secure, transparent, affordable, and scalable solutions and can contribute to overcoming financial inclusion gaps.

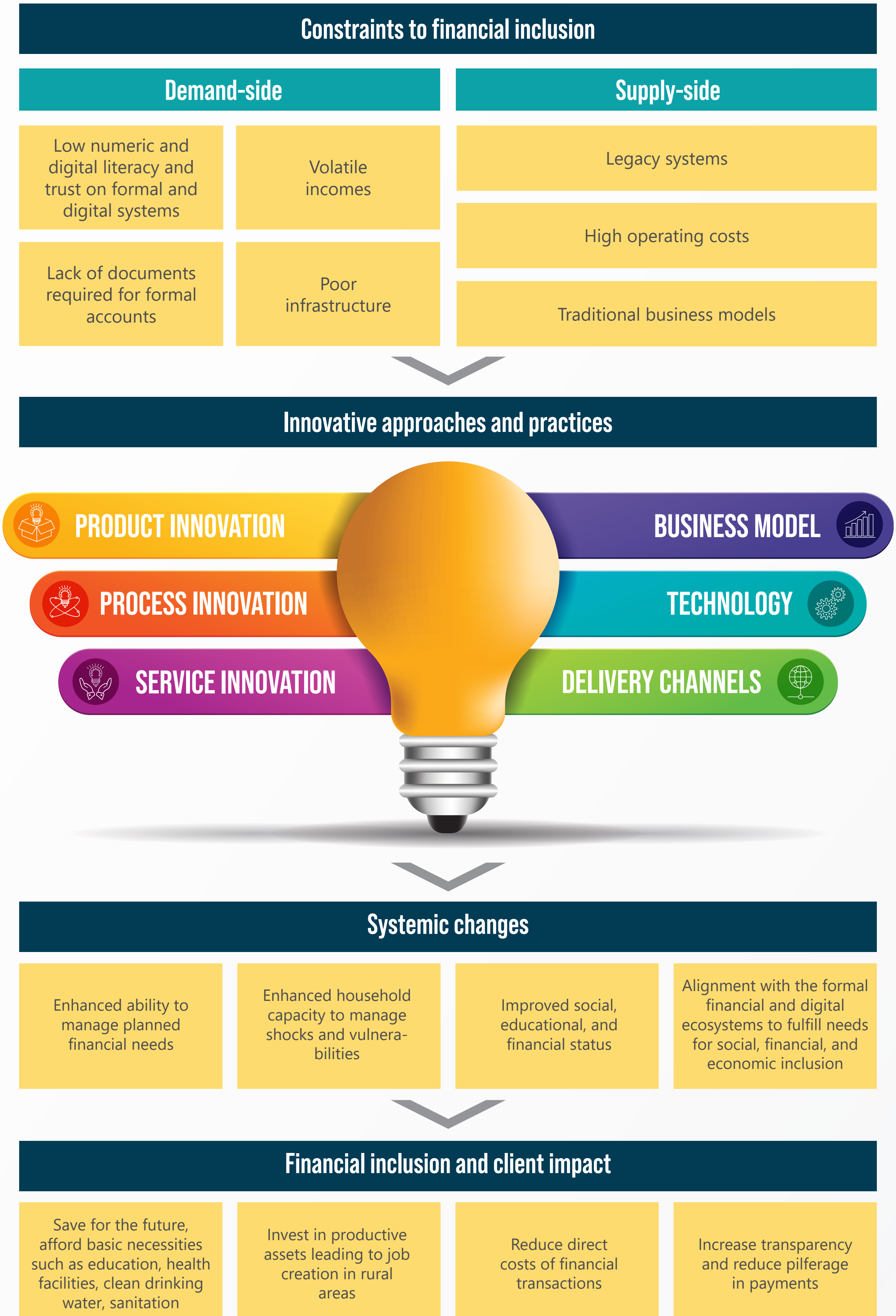
However, to achieve success, Posts have to surmount both demand- and supply-side constraints and rethink, or innovate, operational approaches and practices, to positively impact the lives of their customers, as illustrated in figure 1.

On a non-exhaustive basis, some of the key demand side constraints to financial inclusion include low numeric and digital literacy of clients, lack of formal identification, poor infrastructure, and volatile incomes of customers. In a similar vein, Posts continue to operate with traditional services models, relying on legacy systems that are no longer market-responsive, and have high operating costs which makes it difficult to serve lower-income clients.

At its core, this study identifies approaches and practices that can guide Posts, especially in emerging and transitioning economies, in their innovation journey.

Through services innovations, Posts can help achieve changes in the financial lives of their customers, and ultimately, positively impact low-income and income-vulnerable populations in their respective countries.

Figure 1: **The ecosystem of innovation in digital financial inclusion and its impact on financial inclusion**



# DRIVERS OF INNOVATION IN DIGITAL FINANCIAL SERVICES (DFS)

# The current DFS landscape and innovations

Financial inclusion for low- and moderate-income populations and businesses has gained prominence in the past two decades. The provision of collateral-free credit (microcredit) has evolved to a broader set of financial services further empowered by DFS.

The industry realization that low- and moderate-income households should participate in formal financial systems instead of being stranded in the high-risk informal sector contributed to the evolution of financial services. While the push has been for access to formal accounts, the industry understands the need to design and deliver financial services that poor people want and can use to manage their money better.

Moreover, there is an appreciation that financial services need to integrate with and facilitate participation in the real economy. Such integration enables the financial, social and economic inclusion of people.

### The digital revolution provides the right opportunity to do this.

By the end of 2019, 5.2 billion people had mobile service subscriptions, accounting for 67% of the global population. That same year, mobile technologies and services generated 4.1 trillion USD of economic value added globally (4.7% of the world's gross domestic product).

This figure will approach 5 trillion USD (4.9% of the world's gross domestic product) by 2024 as countries increasingly benefit from the productivity and efficiency gains brought about by increased take-up of mobile services[4].

Equally important is the fact that emerging markets have been experiencing tremendous growth and uptake in the area of mobile payments. In many cases, more individuals in these markets are using mobile payments than in developed markets.

According to the GSMA (2019), Sub-Saharan Africa is the enduring epicentre of mobile money, adding over 50 million registered accounts in 2019. **For the first time in 2019, digital transactions represented most mobile money flows,** and more value was circulating in the mobile money system than exiting.

For customers, this marks a shift away from cash towards digital payments – for school fees, e-commerce, international remittances, savings, credit, pay-as-you-go utilities, and more.

Digital finance, especially those accessible though mobile devices, has not only offered a completely new range of opportunities to reduce the costs of delivering financial services to the mass market, but also promised enhanced access for low- and moderate-income households.

DFS have been expanding reach and access, especially for the underserved and unserved. On the supply side, DFS have opened the way for new business models that require volume and scale to achieve profitability. Such business models demand heavy investments, in particular to build and manage the infrastructure to deliver services.

Players such as mobile network operators, formal financial institutions, and postal operators can collaborate to scale up financial access, respond to the question "financial inclusion for what?", offset costs, and make the interventions more affordable.

To serve this large segment of potential customers, and to meet their social and business objectives, Postal operators could enable several use cases as illustrated in figure 2.

4 The Mobile Economy 2020, GSMA (2020).

Figure 2: **Potential digital financial services and use cases for Posts**


| GET | | |
|---|---|---|
| | DIGITAL | Remittance, Fundraising accounts |
| | FORMAL | G2P |
| | INFORMAL | Income, Wages, Remittances, Loans |

| PROTECT | | |
|---|---|---|
| | DIGITAL | Freemiums, Wallets, Micro-insurance |
| | FORMAL | Mandatory insurance products |
| | INFORMAL | Social savings/ insurance |

| SPEND | | |
|---|---|---|
| | DIGITAL | Merchant, Utility and Bill Payment |
| | FORMAL | School Fees |
| | INFORMAL | Grocery, Medical, Lifestyle, School Fees |

| INVEST | | |
|---|---|---|
| | DIGITAL | Mapped savings accounts, Group Savings, Wallets |
| | FORMAL | Banks, Non-Bank Formal |
| | INFORMAL | RoSCAs or AVECs, SACCOs, MFIs |

| BORROW | | |
|---|---|---|
| | DIGITAL | Digital credit by banks/ MNOs, Fintech |
| | FORMAL | Banks, Non-Bank Formal |
| | INFORMAL | ROSCAs, SACCOs, MFIs |

| SAVE | | |
|---|---|---|
| | DIGITAL | Mobile money based govern-ment bond for investment |
| | FORMAL | Not applicable |
| | INFORMAL | Income supplementing and subsistence assets |

The legacy systems of most postal operators have limited the evolution of use cases. To overcome these, we explore the potential and innovation pathways for these service lines in detail in subsequent sections of this study.

Most Posts offer payment and savings products but miss out on the largest and most lucrative segments: digital credit, insurance products, and personal financial investment and wealth management products. The evolution in technology has stimulated the development of technology-enabled financial services, referred to as "fintech".

Globally, there are now over 20,900 fintech companies operating across all areas of the financial services sector. This section outlines how fintech has impacted the money transfer and payment services of postal operators.

# The disruption of money transfers

The money transfer service has been the cash cow for most Posts over the past two decades. This business has traditionally been driven through two specific routes: direct Post-to-Post settlement facilitated by the UPU's remittance platform (now PosTransfer); and partnership between Posts and money transfer operators (MTOs), mobile network operators (MNOs), or formal financial institutions.

Over the past few decades, MTOs have enjoyed a monopoly in the cross-border and domestic remittance sectors. However, the landscape has evolved rapidly in the last couple of years. The emergence of disruptive innovative companies such as TransferWise, WorldRemit, Remitly, Azimo, TransferGo, and other start-ups is threatening the market leaders' dominance. Indeed, based on recent money transfer data, experts predict that even these MTOs might be put out of business in the next decade by agile and innovative emerging digital financial services companies.

### Box 1: **The Eurogiro–Posts partnership will transform the money transfer business**

eurogiro

The Eurogiro Financial Supermarket is a platform that promises to transform the money transfer and payments business for Posts.

The World Bank estimates that world remittances will surpass 270 billion USD in 2020. There is a whole ecosystem of over 270 million people who work abroad and support over 800 million people, who depend on remittances as their primary source of livelihood.

Their vast network, high degree of customer trust built over the years, and proximity to customers combine to offer Posts a competitive advantage in the money transfer business. These positives, matched with the fact that the Eurogiro Financial Supermarket is a white-label solution, give Posts a perfect opportunity for reimagining the money transfer business.

A recent study[5] by the Visa Economic Empowerment Institute (VEEI) study team examined remittance trends, investigating the advantages of digital remittances. The team found that in many corridors, remittances are meeting or exceeding the UN Sustainable Development Goal 10 of a 3% cost. The study team also found that innovations in the remittance space, in the form of new digital business models paired with global network capabilities, are leading to faster speeds, better transparency, and lower costs for consumers.

Box 1 illustrates how financial market platforms can positively impact Posts' money transfer business.

5 Source: usa.visa.com/sites/visa-economic-empowerment-institute/future-payments/the-rise-of-digital-remittances.html

Fintechs hold great potential for both financial inclusion and economic development in the broader sense. Fintech start-ups have been significantly lowering the costs of providing financial services, making it possible to serve the base of the economic pyramid more profitably.

Fintechs have also created new business models that offer expanded services to customers and generate new revenue streams for financial service providers. These emerging technological innovations in financial services have fundamentally changed how consumers interact with and use financial products and services.

The **Banking the Next Billion** study estimates that through innovative digital financial services, an additional 700–800 million adults will be banked for the first time by the end of 2022, compared with 2017, which will reduce the total unbanked population to just 15%.

The study further highlights that the fintech industry's contribution to Sub-Saharan Africa's economic output will increase from 40 billion USD to at least 150 billion USD by 2022.

However, these innovations are still in the nascent stage. Experimentation and early failure signs owing to limited proven business cases, limited product scope, and lack of an enabling regulatory environment characterize such innovations. And yet there is a compelling case for innovations in financial services to support financial inclusion by reducing costs, expanding customer choice, and increasing customer engagement.

One such innovation opportunity is to link remittances to other financial services that households and businesses need. For example, postal FSPs can link inward remittances to a postal savings or payments account, thus enabling people to save some of a remittance and use some to pay a bill.

The current COVID-19 pandemic has amplified the benefits of expanding DFS because they enable new business models that provide access to affordable financial services to underserved and unserved populations.

The pandemic has also created an urgent need for investment in the prerequisites for developing DFS, such as mobile broadband infrastructure (including in remote areas), digital identification, and open application programming interfaces (APIs).

# Overview of current postal payment services

Globally, over 90% of Posts currently provide financial services, with most offering digital financial services in some form[6].

> A detailed SWOT analysis for postal digital financial services is presented as Annex A.4.

With the right investments and strategies, **Posts can emerge as critical players in the DFS ecosystem – ensuring that customers have access to affordable and inclusive financial services.**

Posts have applied five different models as suits the specific country's context vis-à-vis regulatory framework, infrastructural landscape, the potential to scale, and the value proposition. Through these business models, Posts have emerged as either digital financial service providers or a digital FSP's support service.

The UPU's Global Panorama on Postal Financial Inclusion 2016 identifies two primary business models in the areas of payments and cash transfers for postal operators to scale up.

6 Source: Global Panorama on Postal Financial Inclusion 2016, UPU.

## Business model 1: **Posts as cash merchants**

Here the Post acts as a cash-in/cash-out (CICO) agent for one or more partners (money transfer operator, mobile money operator, government entity, utility company, financial institution, etc.). The Post can also facilitate transactional financial services, such as remittances, bill payments and mobile payments, in partnership with a range of government and private sector institutions. Depending on national regulations on agency banking, the Post can offer account withdrawals/deposits, leveraging its reach outside urban centres.

The cash merchant model is the simplest model for Posts to offer financial services. CICO services do not require much know-how and are relatively inexpensive to deploy. This model is the most prevalent, with over 79% of Posts worldwide offering services as cash merchants.

On the technical side, the introduction of postal payments requires an upgrade to a Post's systems. The back office and over-the-counter systems are integrated with partners' systems to enable the delivery of payments.

Underpinning these partnerships is the need to be a part of innovative business and revenue models. In such models, the Post is paid either by commission or through a predefined compensation structure.

Most people in rural and hard-to-reach areas have difficulties accessing even the most basic of financial services. Posts' extensive infrastructure networks have improved the last-mile touchpoint for such financial services. Posts and their partners can leverage the existing postal network to drive more use cases, especially those that meet the needs of low- and moderate-income populations. Using the same channel, non-financial services, especially financial and numeric education, can be extended to users.

Kazakhstan Post's partnership with a fintech illustrates the potential in this area, as shown in box 2.

### Box 2: **Fintech–Post partnership in payment solutions**

KAZPOST

KazPost has partnered with the fintech Intervale to offer international and domestic payments, including bill payments through various channels, e.g. card, Internet, and mobile. The KazPost network provides cash-in and cash-out services. The outlets also serve as front office and access points for marketing.

In the provision of transaction services, a critical element of successful DFS deployment is providing a flawless customer experience at the last touchpoint. A well-managed network and improved liquidity management characterize such implementations. Posts have the potential to become super agents in the DFS space.

The increased use of point-of-sale (POS) devices and network-connected handheld devices, as well as remote connectivity, will continue to improve the value proposition of utilizing the postal network to reach the underserved through an array of financial and non-financial tools.

## Business model 2: **Domestic and cross-border payments**

Under this model, Posts operate domestic payment and international remittance services through paper-based and electronic transfers. Paper-based money orders are, however, disappearing, with 88% of the 150 Posts that operate under this model now also providing electronic services.

Postal operators can enhance their cross-border payment efficiencies by creating a robust and dynamic system in partnership with money transfer organizations and innovation companies focused on money transfer. Visa, for example, bridges the information coming from the sent market with that of the receipt market.


THE POSTAL NETWORK PRESENTS A READY-MADE CHANNEL TO REACH VULNERABLE, UNDERSERVED AND MARGINALIZED POPULATIONS.

In particular markets, different transaction limits apply for consumer versus business remittances or domestic versus cross-border transactions. In such markets, Visa provides a customized model instead of a one-size-fits-all approach.

To better serve its member countries, the UPU created a global framework for cost-effective postal remittances. The 2021 UPU Congress, ratified the Postal Payment Services Agreement (PPSA) and confirmed its permanent nature. The PPSA enables designated operators (DOs) to engage in the provision of financial services, i.e. Post-to-Post remittances.

This treaty regulates the electronic postal payment services network, in addition to paper-based money orders. The PPSA governs the operation and settlement of bilateral and multilateral financial services transactions among DOs of countries signatory to the treaty.

While the PPSA is itself technology neutral – allowing DOs to use any network or platform in the provision of financial services – the UPU's Postal Technology Centre has, at the request of member countries, worked to create the worldwide electronic postal payment network (WEPPN).

The WEPPN is operationalized through the International Financial System (IFS) software suite, developed in 1990, to accommodate the switch from paper-based and telegraphic money orders to electronic payments. Since then, the IFS platform has evolved at a relatively slow pace compared with developments in financial services – including the emergence of disruptive new fintech players in the financial services sector.

The World Bank's research[7] shows that banks are the costliest channel for sending remittances and Posts the least costly, with average costs of 10.3% and 5.7%, respectively. A recent study published by the VEEI found that the lowest remittance costs were often under 3%. These are analogous to the World Bank SmaRT numbers, reflecting what well-informed customers would find as they shop around for the lowest available remittance rates. Indeed, for a 200 USD remittance, a sub-3% cost was available in 21 of the 28 corridors examined by the VEEI.[8]

There is a clear incentive for regulators to allow national post offices, national banks, and telecommunications companies, along with money transfer organizations, to provide remittance services, increase competition and ultimately reduce costs in remittance markets. There is also a strong incentive for policymakers to pursue an open, interoperable network across all these channels.

However, despite a clear cost advantage, postal remittances through the UPU framework account for only 0.043% of global remittance flows. And while the global remittance market has had years of sustained growth (apart from the pandemic years), postal remittances through IFS have not kept pace.

To address some of these challenges, the newly created PosTransfer brand will enable DOs to protect, strengthen, and re-brand their postal remittance service.

7 Source: blogs.worldbank.org/peoplemove/data-release-remittances-low-and-middle-income-countries-track-reach-551-billion-2019.

8 Source: usa.visa.com/sites/visa-economic-empowerment-institute/future-payments/the-rise-of-digital-remittances.html.

# SIX INNOVATION DRIVERS FOR THE FUTURE OF POSTAL FINANCIAL SERVICES

Innovation and new solutions that leverage data, advanced analytics, digital technologies, and alternative delivery platforms have never been more critical. Organizations are designing innovative approaches to target new customer segments, expand services, reconfigure delivery channels, deliver proactive advice, integrate payments, and apply blockchain technology.

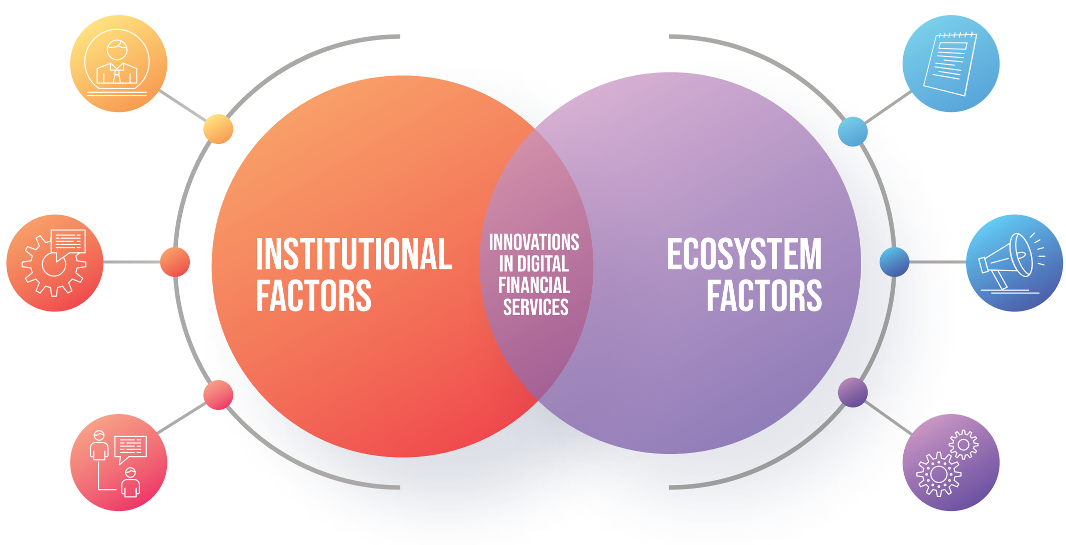
While there are several drivers of innovation for digital financial services around the world, our research indicates that, for Posts, there are six broad categories that are particularly prominent and interconnected, as illustrated in figure 3.

The model in figure 3 indicates the institutional and ecosystem factors for postal operators that drive adoption, use, and scale-up of innovations.

Core institutional factors include skillsets, internal processes, and target customers. On the other hand, ecosystem factors include government policy and regulations, market demographics, and technology factors.

Having conceptualized the overall framework, we explore each of these drivers in detail and examine how Posts can effectively respond or leverage these to build inclusive financial services through digital channels.

Figure 3: **Drivers of innovation for digital financial services**




**PEOPLE**
Innovation culture
New skillsets

**PROCESS**
User-centricity
Partnership and collaboration

**CUSTOMER**
User behavior
User experience
Use cases and choices

**POLICY AND REGULATION**
Consumer protection and awareness
Interoperability and cross-border payments
Government support systems
*e.g. digital identity, shared data platforms*
Data privacy and governance
Innovation sandboxes

**MARKET**
New competitors
Demographic and social changes
Shared economy
Reshoring and localization

**TECHNOLOGY**
Blockchain, AI, and Big Data
Emerging distribution channels
Open APIs

# An enabling policy and regulatory environment

## Overview

Regulatory authorities are often torn between encouraging competition and innovation, and providing meaningful, protective oversight of these innovations and disruptors.

In response to emerging market developments, enabling legal and regulatory reforms allow new players, including non-bank financial institutions, to offer digital financial services (DFS) with new approaches. Such moves by regulators promote competition and safeguard consumer protection to encourage demand and build customer trust in DFS.

Government support for innovation in DFS is also essential, as the ease of accessing government data such as identity, income, and land records directly impacts the cost of providing DFS. Automated access to these databases or directories by financial service providers (FSP) reduces onboarding costs and improves the customer experience.

To achieved this, there is a demonstrated need for interconnectivity amongst all stakeholders and players in the financial sector, that allows for seamless, transparent, and secure interchange of data. Regulators are assessing open architecture as a way to ensures a level playing field for all financial services providers and prevents proprietary 'lock in'.

However, with rapid, disruptive innovation also come data protection risks, especially for the financially excluded, who are more vulnerable to a data privacy breach, identity theft, and fraud. Therefore, regulatory frameworks for market conduct and consumer protection, especially among non-bank fintech providers, are imperative.

This need to regulate innovations has led to the emergence of special regulatory units and working groups among central banks and financial supervisory authorities that analyse innovations falling outside existing regulatory scopes. They also implement programmes and policy measures to encourage fintech innovation.

These fintech regulatory units and working groups often work within a "regulatory sandbox" framework to conduct consumer education and provide risk management certification. They enable regulators to use data analytics to understand IT and cybersecurity risks and develop a code of conduct that regulates fintech market conduct.

**This regulatory sandbox approach provides Posts with an excellent opportunity to launch innovative financial services.**

A regulatory sandbox approach offers:

FSPs such as Posts space to test new approaches in a controlled and small-scale manner subject to regulatory discretion and proportionality;

opportunity for open and active dialogue between regulators and FSPs including Posts; and

responsiveness and agility in shaping and revising regulatory frameworks.

Box 3 shows how regulators can support Posts in the digital transformation journey through flexible regulatory sandboxes.

### Box 3: **How flexible regulations are supporting Posts in launching innovations**

Tunisia Post has benefited from a flexible regulatory environment with strong support from the financial market and postal supervisory authorities. This flexibility has allowed the Post to innovate on a large scale, moving from basic postal financial services to new avenues for offering digital financial services in the market. Leveraging these regulations, the Post has collaborated with financial service providers, including banks, microfinance institutions, and recently fintechs.

This agile regulatory environment has allowed the Post to contribute immensely to financial inclusion initiatives and create a new business model. Together with a fintech firm, the Post launched a blockchain-based digital wallet, the first of its kind in the country.

Tunisia Post is also empowered by the central bank to issue e-Dinars for the Post's mobile wallet holders – making it one of the few postal institutions around the world that can issue digital currency.

An example of regulatory innovations is to simplify the rigorous know-your-customer (KYC) requirements that act as constrains to customer access to DFS. Postal regulators can adopt two approaches to address this constraint and allow innovations:

Simplified or tiered KYC, whereby regulators lower the documentation required in proportion to the benefits desired from the accounts, thus encouraging customers who lack adequate identification to open digital accounts; and

e-KYC, whereby regulators in countries with digital ID systems allow FSPs to query national identity and other such databases to authenticate and verify customer identities.

A tiered KYC approach brings more people into the formal financial system without substantially increasing the abuse risk. A growing number of countries have introduced reforms allowing for exemptions for certain types of customers or products.[9]

An example of this is in Pakistan (see box 4), where the Post is working within the regulatory framework to simplify and facilitate KYC.

### Box 4: **Countries with a digital ID system have a facilitative role for Posts in cash transfer**

The Government of Pakistan has been issuing the Smart National Identity Card (SNIC) since 2012 to ease the challenge of KYC verification. Pakistan Post operates as an agent and has been facilitating the government's cash transfer programmes since 2008.

The SNIC has streamlined the KYC verification and authentication processes for these government subsidy programmes, especially for rural women.

9 Global Financial Inclusion and Consumer Protection Survey, World Bank Group (2017).

## How have regulations impacted the operations of the Post?

At the national level, various laws guide the operations of the Post – sometimes with different supervisory authorities for its postal and financial services operations.

The regulators directly responsible for guiding the Post's operations differ from one country to the next. In some countries, the Post falls under the financial sector regulator, while in others, it falls under the information and communications technology regulator. Interestingly, in certain countries, the Ministry of Transport regulates the Post. The examples in boxes 5 illustrate the impact of regulation on a Post's operations.

These cases underscore the need to rethink postal operations to create a more transparent organization and help policymakers legislate with Posts in mind as key players in financial inclusion.

There is also a need for flexible regulations that encourage easy bank–Post partnerships, as we can see from the Brazil Post case explained in box 6.

These cases underscore the need to rethink postal operations to create a more transparent organization and help policymakers legislate with Posts in mind as key players in financial inclusion.

There is also a need for flexible regulations that encourage easy bank–Post partnerships, as we can see from the Brazil Post case explained in box 6.

The Brazilian Post case highlights the potential to transform postal operations in neighbouring countries. However, for many of the Posts in those countries, they are trying to innovate while navigating a complicated political landscape and with limited policy support.

### Box 5: **Countries with a digital ID system have a facilitative role for Posts in cash transfer**

India's Department of Posts, under the Ministry of Communications, manages India Post. The department has created three main entities to enhance efficiency and transparency in operations and reduce bureaucracy:

- The Reserve Bank of India registered the India Post Payments Bank as a separate corporation responsible for payment operations.
- The Post Office Savings Bank is an agency of the National Savings Institute and reports separately to the Reserve Bank of India. It provides small banking and financial services, including National Savings Certificates under the Indian postal services.
- Recently, Postal Life Insurance has been incorporated as a separate company that reports directly to the Insurance Regulatory and Development Authority of India.

An example that can be cited are Posts in Central America, which have not delivered financial services in the last 50 years. This shows a need for policy reengineering to allow Posts to effectively contribute to financial inclusion.

The UPU's Global Panorama on Postal Financial Inclusion 2016 sets out the various business models for Posts to offer financial services. In the partnership model (business model 3) – which is guided by the regulatory regimes in individual countries – the Post can partner with a FSP (such as a bank), an insurance company, a mobile network operator, or a microfinance institution.

Under this model, the Post is actively involved in the development, customization, and provision of financial products and services. The Post manages the front office, and postal staff promote the service to customers in their respective communities. Often, the partners use the postal brand to sell the product. Sometimes, the Post supports back-office operations.

The partnership between Post and FSP may take a number of different forms:

Partnership with MNOs or fintechs to extend DFS to customers. For example, Tunisia Post has partnered with a fintech in Tunisia in a sandbox to develop the first blockchain e-Dinar.

Partnership with insurance companies to offer insurance services to customers and act as an agent for insurance companies to collect premiums and settle claims.

Partnership with banks and microfinance institutions to provide account-based services, loans, and insurance.

### Box 6: **Transforming through bank partnership – Case of Brazilian Post**

Brazil's national Post, commonly referred to as Correios, is the country's designated operator and is regulated by the Ministry of Communications.

> The Post has 12,000 outlets. Half of these outlets operate full-time, and 90% operate in the rural interior and frontier markets of Brazil.

> Correios' network is among the world's most comprehensive postal networks, across one of the world's largest countries in terms of both population and size. On average, each post office within Brazil's network serves 16,500 residents. Among the largest Latin American economies, only Argentina and Mexico have a smaller residents-to-Post ratio (10,000 and 4,400, respectively).

The reorganization of Correios enabled banks to partner and offer financial services. In 2012, Banco do Brasil, the largest bank in Brazil, partnered with the Post to create one of the largest distribution channels for products and services through the existing postal network and infrastructure. The partnership came to end owing to a change in business strategy after several years of successful operations

Empowered by supportive regulatory models, the partnership model has led to significant milestones and gains in the financial inclusion landscape.

Currently, few use cases are being delivered to the Post's final customer through partnerships with FSPs. However, the business model's continuous improvement will enable more use cases as customer needs, preferences, and the journey towards financial services continue to evolve.

However, some key challenges associated with this model require a closer look. For example, becoming an agent of a FSP means that the Post benefits through commissions and fees; these are often too low to meet the cost of maintaining liquidity and cash management throughout the network.

Exclusive agreements with FSPs, especially banks, limit the creation of a competitive landscape. Such arrangements may lead to collusion and connivance, increase costs, shut out new competitors, discourage innovation, and prevent postal networks from fully exploiting their reach to cater to the needs of the low- and moderate-income segment in order to become sustainable.

Furthermore, there is a need for Posts to embrace interconnectivity and open architecture in their DFS innovation journey. Using an API based architecture, Posts can easily partner and connect with a range of stakeholders, including customers, partner FSPs, and regulators.

### Box 7: **Regulations allowing monopolistic operations – Case of Tunisia Post**

البريد التونسي
LA POSTE TUNISIENNE

Tunisia Post has operated for more than a century. In 1990, the government allowed the Post the autonomy to operate postal savings and current accounts.

> Tunisia Post is the only non-banking institution in Tunisia authorized to collect savings and provide means of payment.

Tunisia Post was the first financial institution in the country to introduce e-payments (in 2000) and mobile payments (in 2009). Furthermore, in 2015, the Post launched a blockchain sandbox with Tunisian fintech start-ups.

Tunisia Post is an authorized financial institution, but it is not a bank. Its virtual e-Dinar service has seen more than 1 million accounts opened at 500 post branches across Tunisia. Users can pay for mobile and digital activities using these virtual accounts, making digital transfers easier and faster. In April and May 2020, following the COVID-19 outbreak in Tunisia, more than 500,000 users signed up for an account, primarily to receive government social payments.

Tunisia Post has collaborated with many partners (especially in fintech), using APIs for seamless connection and data sharing. In partnership with the Central Bank of Tunisia, the Post has made the first blockchain application linked to several partners.

Through memoranda of understanding, Tunisia Post has partnered with all microfinance institutions to offer more customer-centric, accessible, reliable, and cost-effective services. One example is Tunisia Post's partnership with Enda Inter-arabe.

Enda Inter-arabe is a pioneering Tunisian microfinance NGO with 96 branches, 5 mobile branches, and over 1,800 staff. Together with Enda, the Post offers co-branded payment cards and an e-Dinar account (a virtual account accessible through a mobile phone).

The e-Dinar account is one of the most affordable savings accounts in the country. The core objective of the partnership is to encourage digital money and minimize cash use by customers. Customers receive and repay micro-loans using this account.

## Guidance for Posts

Digital finance not only offers a completely new range of opportunities to reduce the costs of delivering financial services to the mass market, but it also provides new options to reduce the costs of enhancing financial inclusion for the masses[10].

Restrictive regulatory hurdles, often driven by foreign exchange restrictions, have impacted the money transfer landscape.

Postal operators cannot conduct cross-border transfers in some countries, thus limiting the opportunity for Posts to foray into the over 270 billion USD money transfer market. Partnerships between Posts and disruptive companies have emerged as key to providing remittance services. These successful cases allow regulators to rethink and reimagine the Post's role in the money transfer market.

Posts operate their domestic payments or international remittances through paper-based and electronic transfers. The rise of new communication and information technologies and innovative mechanisms for delivering financial services and products are creating new opportunities for cross-border transfers, to get money into the hands – and ideally into the accounts – of those who need it most.

A change towards a more inclusive business model based on sustainable partnerships between money transfer operators and post offices could widely increase and modernize the network of pay-out and pay-in locations for MTOs in complement to Posts' postal payment services.

Through a more balanced sharing of gains and pains with postal partners on the ground, the business could grow faster and to the mutual benefit of MTOs, postal operators, and especially remittance senders and their families. The partnerships between MTOs and Posts could be optimized by modernizing the networks, sponsoring vocational training of staff, and designing a specific set of fees and costs.

In some countries, the regulator has allowed the Post to have exclusive financial services remit in the early stages to catalyse digital transformation, mature the payment systems in the country, and to further national policy objectives on financial inclusion.

Stakeholders may view such an approach as anti-progressive. However, it can have the beneficial effect of accelerating the provision of inclusive financial services in the country. An example of this is the case of Tunisia Post presented in box 7. Finally, within the remits of their operational charters, Posts must advocate regulators and policy makers to allow postal financial services that enable customers to:

- access savings mechanisms and provide a secure means to save
- access safe and convenient means to transfer cash or receive payments, wages, and benefits
- access affordable and customer-centric insurance schemes
- access affordable long-term savings schemes such as government bonds and securities
- access low-cost digitally delivered credit products.

10 Please see Annex A.4 for a detailed SWOT analysis for postal Digital Financial Services.

# Shifts in financial services markets

Many forces are disrupting the role, structure, and competitive environment for financial institutions and the markets and societies in which they operate. Fintechs are challenging the incumbents and coming up with more relevant solutions for the low- and moderate-income populations. These fintechs are now defining the direction, shape, and pace of change across the financial services industry and are laying the foundation for future disruptions.

## Competitive Landscape

The increased presence of fintech has defined the forces discussed below, which provide ground-truthing for postal operators to engage in partnership within a very competitive landscape.

> There are several aspects that Posts need to consider in this regard, including:

**Cost commoditization:** By exploring new technologies to standardize and automate processes, fintechs can bring down their operating costs and differentiate their offerings.

**Profit redistribution:** Leveraging technology and partnerships enables both postal operators and fintechs to bypass traditional value chains and create new profit areas.

**One-stop-shop platforms:** Customers are demanding more choices in financial services and increasingly expect a one-stop shop for their financial needs. Providers are scrambling to respond, turning to digital platforms that enable them to deliver in multiple geographies, often alongside other providers.

**Data monetization:** Fintechs have moved beyond static datasets to combine rich, differentiated data from multiple sources and use it in real time to engage and serve their customers. Fintechs monetize data by digitally engaging customers while gathering data or by offering customers additional value in exchange for data.

**Artificial intelligence workforce:** AI is replacing the human workforce and taking over the customer-facing activities of financial service providers. AI greatly reduces the time and personnel required to complete major projects that involve well-defined, repetitive tasks. Furthermore, advances in robotics and AI have started a wave of reshoring and localization as more tasks can now be performed at a competitive cost locally rather than in previously lower-cost locations such as China (People's Rep.), India and Poland.

## Demographic shift

Other forces impacting the financial industry include a demographic shift, with millennials[11] reshaping customer attitudes. Fifty percent[12] of the world's population is under the age of 30. The millennial generation is digitally native. They bring new psychology and perspectives concerning banking and financial services.

Posts, which are often branded as a legacy institution, need to understand this diverse customer segment, and develop products and services that are relevant, attractive, and useful for the millennial and post-millennial generations.

Products and services in all sectors are expected to be mobile-first, delivered using digital channels, and personalized for the end-user. Therefore, the days of designing products based on broad demographics or survey groups are fading fast. FSPs need to leverage emerging technologies such as AI and data analytics, which afford customers access to rich, compelling, and personalized services.

## Shared economy

Increasingly, financial institutions' role in providing financial services is also being decentralized with the emergence of shared economies as observed in other markets, such as with cars, taxis, and hotel rooms.

This emergence of shared economies is seen through decentralized asset ownership or partnerships with different providers to design services that focus on a specific sliver of the value chain or a particular subset of customers. Financial institutions are increasingly playing an intermediary role with less at stake and delivering services at much lower costs.

An example is where banks sell their payment infrastructure as a service to smaller providers such as fintechs and leverage the cloud to do it.

## Reshoring and localization

Advancements in robotics and AI will start a wave of reshoring and localization as they provide consistent, convenient, and low-cost services, which customers will trust. The ATM is an excellent example of how technology replaced bank teller services. Advances in robotics and AI, machine learning, and pattern recognition in recent years address key pressure points, reduce costs, and mitigate risks, and look far beyond replacing the bank teller.

A good example is chatbots, which act like smart digital assistants that engage customers with a touch of human-like interaction combined with a personalized experience and a sense of realness. They address customer needs and inquiries, walk customers through process steps, provide predictive messages and behaviour insights, and automate tasks such as money transfers or balance inquiries. Over time, they collect behavioural data on users and learn the appropriate replies to user requests.

## Guidance for Posts

Offering new products and services to respond to emerging market segments and demands can be challenging for cash-strapped institutions such as Posts. Posts need to understand emerging market trends, driven by big data, and design customer-centric services that attract new customers. This requires rather large investments in capital expenditure (CAPEX) to acquire infrastructure (physical and IT), as well as operational expenditure (OPEX) – the most notable of which is human capital – as well as investments in research and development (R&D).

However, Posts have the opportunity to partner with fintechs to leverage the potential of the shared economy model, allowing them to technologically leapfrog into the market, and reduce CAPEX and OPEX costs.

11 Born in the years between the 1980s and the early 2000s.

12 This is what millennials want in 2018, World Economic Forum.

Under such arrangements, Posts' business operations will become very agile and quickly adapt to technology, changing regulations, and shared revenue. While fintechs present a value proposition in the high-touch delivery model, Posts provide critical infrastructure for last-mile delivery through the vast rural agent network.

A typical rural postal customer with limited financial and digital literacy prefers human touch over digital technology.

> Partnerships with fintechs allow Posts to leverage the shared economy model – leapfrogging into the market, whilst reducing CAPEX and OPEX.

Win-win partnerships are already being forged by some Posts, as illustrated in box 8.

Posts can leverage market shifts to offer a more personalized and omnichannel customer experience. Whether it be to submit an application, make a payment, or verify their identity, customers want quick and easy access to services. For Posts, meeting these expectations means migrating key transactions online.

However, successfully transforming service delivery generally begins with understanding customer needs and priorities. Customers expect the choice and convenience of accessing services online, face-to-face, via telephone, or through the mail. They want the flexibility to move between these channels, depending on the transaction type.

Therefore, Posts can integrate physical and digital platforms to create new and more convenient ways of transacting with their customers.

### Box 8: **Successful Post-fintech partnerships**

Kazakhstan Post, also referred to as KazPost, has partnered with Intervale, a fintech, to offer financial services. Intervale provides both Internet and mobile platforms, while KazPost provides a vast network of outlets across the country to reach customers. This partnership has allowed Intervale to reach new customers through the KazPost network. It has allowed KazPost to provide more use cases to rural customers and add a new business line through a revenue-sharing model.

In Tunisia, the top three mobile network operators have partnered with the Tunisian Post to offer financial services. This partnership has ensured compliance with national regulations requiring MNOs to have banking licences to offer financial services.

# Keeping technology (systems and processes) market responsive

## Overview

Advances in technology continue to have a growing impact on business models, value chains, and customer behaviour worldwide, forcing traditional financial service providers to adapt to new realities. Banking and financial services used to be the stronghold of traditional established financial institutions, which possessed several advantages related to their size and scale that enabled them to serve much of the mass market.

However, many of these traditional FSPs had high-cost branch networks and legacy IT systems, which have since been rendered outdated by advances in technology and consumer behaviour.

"Traditional" FSPs, including some postal FSPs, have proved to be slow and sluggish to adapt to a digital world. Their complex business and decision-making processes, coupled with high per-transaction costs have led to some consumers being considered unprofitable, with negative consequences on financial inclusion.

In this context, financial-technology-driven service providers (fintechs) have outshone their traditional counterparts to provide a range of personalized, affordable, accessible financial services in a digital native channel.

A comparative assessment of traditional FSPs and fintechs highlights the benefits for end users.

Table 1: **Fintech value proposition for end users**

| Attribute | Traditional FSPs, incl. Posts | Fintechs |
|---|---|---|
| **Cost of services** | High | Medium to high |
| **Turnaround time** | With delays | Instant |
| **Customer service** | Extremely generalized | Personalized |
| **Personalized services** | Offered to premium customers | Offered to all customers |
| **Processes** | Complex, partially automated | Simple and hassle-free, fully automated |
| **Documentations required** | High | Low |
| **Updates on request** | Takes time | Instant |
| **Key operational channels** | Branch / physical location | Mobile |
| **Quality of service** | Medium | High |
| **Ease of use** | Low to medium | High |
| **Features** | Limited | Multiple, personalized, advisory |
| **Other integrations** | Limited | Social media, bill payments |

The overall value proposition of fintechs, compared to traditional FSPs, is:

- Ease of use
- Faster services
- Good experience
- Lower cost of access to financial solutions
- More services and features available
- Value-added services

Traditionally, Posts have focused on the delivery of postal financial services using a brick-and-mortar approach. Through digital transformation, and through win-win partnerships with fintechs, Posts can put an emphasis on digitally serving customers no matter where they are geographically situated in the country, or how "small" the customer.

**A first step in this process is usually to prepare a DFS strategy** that identifies market potential, assesses services channels, and determine pathways to achieve the Post's growth ambitions.

Postal digital transformation cannot be achieved by simply laying new technology over legacy processes.

With a digital-first approach, Posts need to reconfigure their financial services business models, and adopt new ways of servicing existing and potential customers through digital channels.

For example, as shown in box 9, Armenia Post is pursuing fundamental changes to its financial services, through both digitalization and regulatory changes.

Box 9: **Posts adopting digital financial services to remain afloat in the financial services market**

ՀԱՅՓՈՍՏ
HAYPOST

Armenia Post (HayPost) offers various financial services, including money transfers, pension disbursement, and payment services (e.g. social benefits, utility bills, government fees, and tax payments). The Post has four rapid money transfer systems: Ria, Unistream, Golden Crown, and the UPU's PosTransfer (to facilitate Post-to-Post transfers between Armenia and the Russian Federation). The Post is also collaborating with banks, credit companies, and insurance providers, acting as an agent to collect payments and extend access to these services to its customers.

HayPost is actively seeking regulatory changes through the Central Bank of Armenia that will allow it to offer e-wallet services. These services will target over 300,000 pensioners and other potential customers. A new law, since January 2021, mandates cashless payments for all pensioners. The project has a three-year timeline, starting with the three big cities followed by towns and villages.

In collaboration with the Armenian government, HayPost is building a cashless ecosystem, ensuring infrastructure availability in rural areas and allowing payments through mobile devices and cash-out via the operator's network.

Moreover, the existing legislation in the country allows only banks to offer credit cards. To overcome this limitation, HayPost is pursuing amendments so that it can obtain a licence to start offering credit card services for its customers.

## User centricity capitalizing on technological advances

As customers become increasingly connected through social media, they are becoming more demanding and less brand loyal. It is becoming easier for users to switch service providers if they feel that the offerings are too generic, and there are tools that make switching less painful. Customers have experienced first-hand how digitalization of other services delivers speed and personalization, and this has shaped their expectation for financial services as well. They want customized, adaptive solutions that evolve and deliver specified outcomes.

Technological advances, such as the use of big data and analytics, are giving businesses access to exponentially more data about what users do and need. FSPs are using these to examine the behavioural attributes that drive consumer decisions.

> To take advantage of the digital financial services (DFS) revolution, Posts need to fundamentally rethink and restructure their financial services strategy.

Traditionally, Posts have offered savings schemes that allowed members to accumulate savings. The main challenge in this has been cash management. However, a second and equally important challenge has been in ensuring that customers have convenient access to their cash when needed. Failure to do so meant that customers were left disappointed with the service and exploring alternative service providers so as to access savings easily.

In response to market changes and to meet demand from a new segment of digitally savvy customers, the postal bank of Kenya has introduced a wallet-based account to assist its rural customers. This product is especially targeted towards women, so they can bank and save conveniently (box 10).

### Box 10: **Introduction of digital savings product to provide convenience for the next generation customer**

Kenya's Postbank has introduced a mobile-based account called M-Sawa. Customers can instantly create this wallet-based account by dialling a USSD code.

After opening the account, customers can begin saving by sending their savings through M-Pesa to a bank's pay bill number. This account helped Postbank reach 13,875 new customers in just five months, primarily rural women in groups that did not have formal accounts.

The bank was able to mobilize over 110,000 USD in deposits over the same period. The launch and successful uptake of the m-wallet shows a clear postal innovation in response to market demand that was well executed, with the right processes, product, and approach.

To advance their digital finance journey, Posts have entered into partnerships with financial services providers (FSP), or third-party vendors, to digitalize their operations and update operating systems and processes. This included uploading account details to an online platform and issuing debit cards to help customers access their savings from POS devices or ATMs, or over the counter. As a result, there has been an increased uptake of postal financial services especially through digital channels.

These Post-FSP partnerships are an efficient way to offer postal DFS without having to invest large amounts of resources in developing infrastructure, systems, and services.

> An API driven open architecture approach can enable Posts to partner with FSPs and offer cutting edge products and services on demand.

By adopting an open architecture platform, Posts can engage with FSPs, third-party developers, and other stakeholders through open APIs. This open architecture approach promotes interconnectivity with key stakeholders that can enable Posts to leapfrog their DFS roll-out process to offer cutting-edge products and services on demand.

Policy and regulatory changes have also supported Posts. In many countries, the government requires civil servants, police, disciplined forces, and students in learning institutions to open savings accounts with the Post for payment processing. Many accumulating savings and credit associations (ACSAs) and rotating savings and credit associations (ROSCAs) have saved huge amounts with the Post – up to billions of dollars.

While these customer segments might have to open a postal account to receive government benefits, they are no less sensitive to quality of service and demand digital channels to transact with the Post.

User-centric innovations, win-win partnerships, and an open architecture platform are key to retaining all customer segments.

## Guidance for Posts

Win-win partnerships, build upon the principles of shared growth, have the potential to transform business operations and practices for Posts, increasing their resilience and making them future-proof.

These partnerships can also provide postal operators with access to new technologies, new talent, and new processes, creating synergistic value in the delivery of customer-centric solutions.

> To succeed in the rapidly changing technology landscape, Posts can partner with innovative companies to update, and keep current, their systems and processes.

For example, by implementing machine learning algorithms to support automated decision making and data-driven process optimization, Posts can generate insights to create better customer experiences, improve operational efficiency, and drive sales.

While this might be a daunting undertaking for any Post in an emerging economy, it could be easily achieved in partnership with a fintech or a technology services provider.

Get the application programming interfaces ready. As FSPs, including Posts, seek to multiply their interactions with customers, they will need to think about partnering with others to offer products or services.

Posts can use APIs to deliver solutions accessible through external providers, with assurance of the providers' ability to validate the identity and creditworthiness of all parties involved. They can also use these APIs to integrate with external financial institutions such as banks and money transfer operators to offer a range of services seamlessly to their customers.

# Meeting evolving customer expectations

## Overview

As technological innovations raise customer expectations for online experiences, financial service providers will need to adapt and reconsider their value-add and service offerings.

**Customer behaviours and expectations are shifting in ways that are forcing financial institutions, including Posts, to redefine their priorities and transform their distribution models.**

User expectations of what their financial partners should provide are quickly changing owing to generational shifts and rapid adoption of technology. Today's young adults are digital natives – born into a world where nearly all social and business interactions are through digital platforms. They expect their FSPs to be the same: offering on-demand, flexible, tailored, solutions through digital platforms.

Digital channels enable FSPs to play a much more significant role in their customers' day-to-day lives than in the past. Artificial intelligence (AI) presents excellent opportunities to process vast amounts of data to generate insights about these generational changes in customer preferences and behaviours. However, the most exciting potential use of AI involves foresight: identifying patterns of behaviour early enough to predict a customer's next decision.

As Posts seek to redefine their business models and processes, moving away from a legacy institution perception, they need to be mindful of the following emerging customer trends:

**Automated customer support –** customers are open to receiving computer-generated support, provided the services are tailored and personalized.

**Alternative banking models –** younger customers are attracted to platforms that offer digital alternatives to traditional financial institutions. This demand can be met through the creation of need-responsive, tailored digital financial services that younger consumers have become accustomed to on fintech platforms.

**Data as a currency –** customers are willing to share more of their data with financial institutions. They understand the value of their data and expect to receive benefits for sharing it in the form of offers, reduced interest rates, recognition, and other rewards.

To best understand the changes in customer behaviour and focus efforts to meet their evolving expectations, FSPs need to refine their strategies, redefine the assumptions that have propelled them in the past, and realize that the rules of the game have changed. They need to establish an ongoing dialogue with customers, continuously test products and services, and inform decisions to provide a better and more engaging customer experience.

## Need for a better customer experience

The key to better customer experience is to design the transformation process in a manner that will redevelop services to meet and exceed customer expectations.

> Digital transformation is pointless if it does not transform the customer's experience for the better.

FSPs are stepping outside the box and raising customer expectations with personalized communications informed by the customer's profile and previous interactions. Furthermore, FSPs ensure the availability of services 24/7; offer a range of value-added functions and features; and ensure ease in setting up, configuring, and using the service.

Financial institutions are recognizing that an all-digital experience must be coupled with a human touch. This need for "touch and tech" is significantly higher among the poorer and most vulnerable, who have low trust in technology-delivered services.

The typical postal customer fits this profile, hence the need to focus on both digital experiences and human touch in postal service delivery.

Posts are particularly well suited to deliver this high-tech, high-touch combination as they have deep rural outreach.

## Need for advanced use cases

Emerging technologies hold considerable potential for advanced use cases for DFS. A good example is how providers can leverage data throughout the customer's lifecycle to support decision making and new business opportunities.

The emergence of big data and the sources and formats of such data have enabled different approaches to the credit scoring process, enhancing digital credit use cases. Financial institutions can also generate cross- and upselling opportunities based on customer insights and current customer behaviour.
Through segmentation of customers and based on the available data, institutions can predict the products or services customers are most likely to be interested in and can then offer bundled products and services.

> Posts are particularly well suited to deliver a combination of high-tech and high-touch – a 'touch and tech' approach – to serve vulnerable and underserved populations.

For example, financial institutions may find that customers are using the wallet as a storage account, an indication that they could serve their customers more effectively through a savings account.

Considering the customer base that postal institutions cater to, and the trust surplus that is enjoyed by most Posts, there is a need to leverage customers' financial behaviours and offer services that provide added value – especially when it comes to safeguarding customers' deposits and helping them grow.

## Guidance for Posts

The shifts in consumer behaviour and expectations have a host of implications for Posts and how they serve their customers. There are several ways that they can respond:

**Let the customers define their experience.** Consumers seek speed, convenience, and tailored advice, and they want it all on their terms.

Advances in AI and machine learning technologies are opening the door for FSPs to set up automated support as an additional route for customers to access personalized information and guidance.

**Tailor branches to add value.** The branch is still an important part of the customer experience, but its role need not be the same for all customer groups.

As Posts look to enhance efficiency and drive down costs to serve their customers, they can design branches for specialist functions that will add the most value based on customer needs. As outlined in the previous section, a key differentiator of postal financial services is that ability of Posts to offer high-touch high-tech services – postal branches play a pivotal role in this service model.

> Branch offices are central to a high-tech/high-touch financial services delivery model that Posts could adopt.

As digital offerings mature, postal operators must define their value proposition to encompass digital innovation and traditional values to meet their customers' needs.

# Investing in people

## Overview

The rapid growth of technology-driven financial services has heightened the need to develop new skills, build capacities, and create an organizational culture that embraces and nurtures innovation.

**There is a clear need for Posts to empower and promote in-house "intrapreneurs" who recognize the emerging needs of customers and design solutions that offer a range of value-added services.**

The changing customer expectations also require Posts to access and retain talent with new skillsets able to design products and services focused explicitly on what the customer wants.

The evolving digital future has led to new roles in the financial sector, such as user experience designers and data scientists. It has also led to the emergence of innovation hubs tasked with creating and fostering a culture of innovative thinking and collaboration among financial service providers.

Just as the changing demographics are reshaping customer attitudes and expectations, there is a change in employee attitudes. Human capital strategies are influencing how FSPs interact with the new generation of employees by introducing flexible working hours, remote work environments, new types of incentives and compensation, and a shift towards e-learning platforms for talent development.

**In Posts, a postal worker delivers postal logistics services and a limited set of doorstep financial services, from low-value cash delivery to higher-value digital and financial literacy support.**

Most postal operators have struggled to maintain a sustainable business model and balance with human capacity issues.

The introduction of handheld devices within the Posts of India and Belarus has redefined postal service delivery, as illustrated in box 11.

## Guidance for Posts

There is a clear and demonstrated need for postal operators to acquire talent and build a diverse, technology-savvy pool of staff to grow and sustain their digital finance ambitions. But this does not extend only to frontline or customer-facing staff.

**Posts need to acquire strategic leadership in technology product design and delivery.** They need management-level staff that understand the technology, solution, and postal financial services strategy – so that Posts are not "held hostage" to their partner fintechs, money transfer operators, and banks.

Even if Posts decide to partner with a fintech to avoid sunk capital and operating expenses, they still need to have the capabilities to define the strategy, vision, and product roadmap in-house. This will ensure not only that Post–fintech partnerships are win-win, but also that Posts are strategically thinking ahead to safeguard their market, customers, and brand.

**Posts cannot outsource their entire financial services operations to a partner or third party. Strategic decision making needs to remain in-house.**

Box 11: **The introduction and use of handheld devices for postal service delivery**

БЕЛПОШТА

With a substantial and less digitally skilled workforce, India Post and Belarus Post (Belpochta) have both introduced network-connected handheld devices to deliver postal and government services at the doorsteps of customers.

These devices have demonstrated how important it is for Posts to innovate. They can now provide more services – including money transfer, insurance, tax and government benefit transfer services, along with other postal services – to customers from the comfort of their home. Doorstep banking is going digital, and postal workers are the frontline workforce that can enable this revolution.

**Posts must also engage all employees in the innovation process by giving them the means to feed a dedicated innovation team with new ideas.**

They must provide enough incentives for the employees to want to take up the challenge.

Among others, Swiss Post and Australia Post have turned the "idea box" into an effective tool to unlock employees' ability to ideate new processes or products.

# Staying ahead of technological changes

## Overview

Technological progress has played an integral role in the formation and transformation of the financial sector globally.[13] Over the past 50 years, various technological innovations have helped introduce new business models, products, and ways to conduct financial transactions. For instance, the proliferation of computer terminals and personal computers in the 1980s led to automated bank branches and facilitated remote banking, giving rise to the automated teller machine, or ATM.

Over the past decade, however, the pace of technological progress has accelerated and has resulted in new business models to make processes more efficient and better address customer needs.

Specifically, advances in four critical technological areas have currently been revolutionizing the financial sector around the world: mobile phones, cloud computing, blockchains, and the nexus between artificial intelligence and big data.

### Mobile phones

Mobile phones impact many aspects of our daily lives and have transformed the way we conduct business and interact socially, and increasingly how we manage our financial lives.

A significant development in the financial services market has been the use of mobile phones to access financial services. Customers increasingly use phones to perform financial transactions and manage personal finances. Owing to their wide availability and use, mobile devices have become an important distribution channel for financial products and services for many postal financial services providers, banks, financial institutions, and mobile network operators.

Over the past five years, the landscape of mobile wallets has evolved rapidly. Several players have been vying for a piece of this fast-growing market, including Posts, fintech start-ups, established technology firms, mobile phone providers, and postal operators, in addition to traditional financial institutions.

Postal operators that already provide financial services often offer mobile wallets as the first step on their journey into digital financial services.

### Cloud computing

Often referred to as on-demand computing, cloud computing can provide access to computing storage, servers, and services as needed over the Internet – similar to a public electric utility, but for computing resources. Like a public utility, cloud computing can dynamically scale up or down depending on the company's computing needs. Cloud computing service providers can meter a company's usage and bill accordingly.

Essentially, cloud computing takes the heavy lifting involved in processing, accessing, and storing data away from company servers and data centres, transferring these functions to remote servers, which a person or institution can access over the Internet and with any device connected to the Internet.

Posts can leverage on-demand cloud computing capabilities to reduce their start-up capital expenditure (CAPEX) needs for their data centre and digital services delivery centre.

### Blockchain/distributed ledger technology

A blockchain is a form of distributed ledger technology that is open to anyone. It is a vast, global, decentralized database that is cryptographically secure and runs on millions of devices. Therefore, the transactions in the distributed ledger are immutable and verifiable, making them transparent and easy to track. Blockchain has undoubtedly caught the attention of global institutions like banks and corporates, development organizations, and regulators. Each year, the financial services sector is investing 1.7 billion USD in technology, according to the research firm Greenwich Associates.[14]

13 This section has been adapted from "Fintech in Uganda: Implications for Regulation" by the Cambridge Centre for Alternative Finance and MicroSave Consulting, sponsored by FSD Uganda.

14 Financial Services Industry Spends $1.7B Per Year on Blockchain.

One of the earliest use cases of blockchain technology is for cross-border payments and remittances. The advantage of blockchain technology for international remittances is that it can significantly lower, with transaction costs reducing to 1 to 3 cents (in USD terms).

Another advantage of using blockchain is that the remittance process is almost instantaneous, whereas the traditional methods typically take anywhere from 2 to 5 days.

While most countries would apply the wait-and-watch approach to the evolution of blockchain technology, in Tunisia, the partnership between the government and the Post is a clear demonstration of the need to integrate blockchain technology, as shown in box 12.

## Artificial intelligence/machine learning and big data analytics

Artificial intelligence, machine learning (ML), and big data have become some of the most disruptive technological innovations in today's world. The terms are often used interchangeably, but broadly:

### Box 12: **Blockchain launch in Tunisia by the Tunisian Post**

البريد التونسي
LA POSTE TUNISIENNE

In November 2019, Universal Hub Africa, a Russian tech provider, launched a blockchain uDinar, backed by the Tunisian dinar, as a proof of concept (PoC).

The PoC app uses decentralized ledger technology based on a local blockchain hosted by the Tunisian agency of the Internet.

#### Indecisiveness in the uptake of blockchain technology in Africa

Most governments across Africa have been apprehensive and reserved in the uptake of blockchain technology. Zimbabwe and Namibia, for example, approached the whole development with a hard stance. Others such as the Democratic Republic of the Congo, Kenya, Nigeria and Uganda seem to be adopting a wait-and-see approach (GIZ, 2020).

A regulatory sandbox created in Mauritius demonstrated the importance of technological advancement. Most countries are still at the point where they have formed a task force to understand the cost-benefit analysis and develop the requisite blockchain and cryptocurrency regulations.

Many countries in Africa have advanced and innovative e-wallet services, such as M-Pesa, leading financial services ecosystems. However, a large number of people in these countries are still financially excluded. There is thus a need to design an easier, robust, and secure way to deliver formal financial services to financially excluded populations.

At the moment, the uptake of cryptocurrencies in Africa can serve the following use cases:

- Money transfers
- Payments for products and services
- Wealth preservation (storing money in bitcoin can be useful in countries with hyperinflation)
- Donations to good causes
- Building businesses, e.g. import/export ventures.

Artificial intelligence refers to the use of computers that analyse and learn from data and models to respond intelligently to new data and adapt their outputs accordingly.

Machine learning refers to the set of techniques and tools that allow computers to “think” by creating mathematical algorithms based on accumulated data.

Big data refers to high-volume and high-velocity (real time) datasets for enhanced insight and decision making.

The financial sector has been an early adopter of big data and AI/ML, which has had a profound impact on investment management, trading, cybersecurity, and how transactions are performed. A wide variety of firms use these methods to deliver financial products and services.

## Guidance for Posts

Leveraging technology to implement new services and diversifying into new business models continues to be a key challenge for postal operators everywhere.

The lack of an innovation process calls for Posts to plan carefully through clear end-to-end innovation management, starting at the board level to encourage an entrepreneurial culture that allows innovation to grow and flourish and promotes company-wide enthusiasm for change.

The most successful Posts can capture innovations inside and outside the organization and adapt these in a demand-responsive manner to offer new products and services to their customers.

> Posts could innovate through open design, which requires them to use external and internal ideas, and internal and external paths to market, as they look to mature their technology.

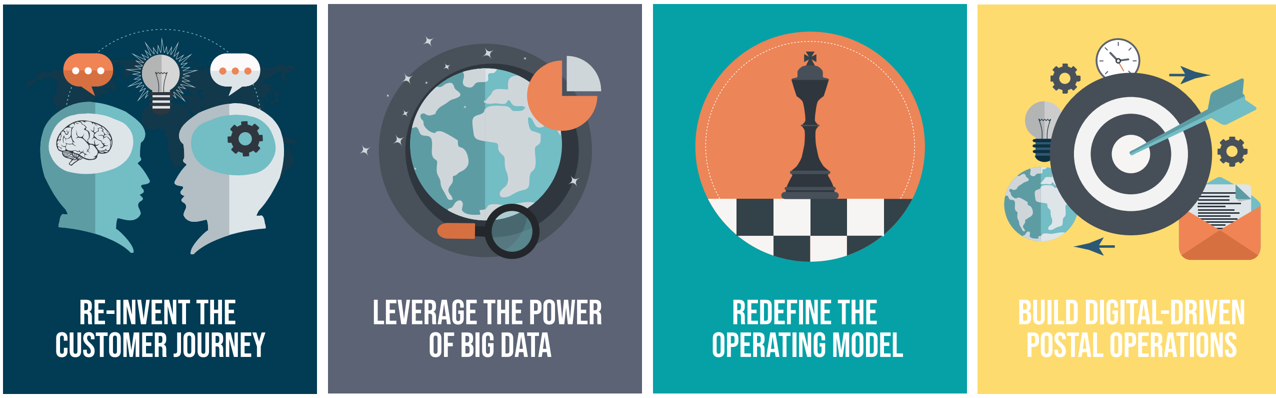
Posts must engage all employees in the innovation process by giving them the means to feed the dedicated innovation team with new ideas and enough incentives to take up the challenge.

In addition to developing in-house ideas for new services and processes, Posts can reach out to new types of agile innovators, many of them start-ups, when it comes to disruptive technologies or business models.

Engaging the assistance of start-ups often calls for specialized forms of partnership, such as incubators and accelerators, involving a trade of mentorship for intellectual property.

# AN INNOVATION-FOCUSED APPROACH TO POSTAL DFS

Figure 4: **Priority pillars for Posts' innovation journey**




The postal system is a communication network of extraordinary proportions. There are over 660,000 post offices worldwide, the majority in rural areas, and each year the postal system handles traffic of over 330 billion letters and 670 million parcels.

There are few places beyond its reach and few people without access to a post office. It is this proximity to customers that makes the postal system well suited to the provision of financial services.

To build an innovation-focused approach for digital financial services and a digital transformation strategy, postal operators need to focus on four priority pillars, as indicated in figure 4.

# Re-invent the customer journey

As technology evolves, so do customers' expectations for a seamless experience. Financial service providers are using technology to improve business processes and meet the growing demands of digitally savvy customers to ensure they remain commercially viable in the future.

In today's digital era, postal services globally are embracing digital transformation. However, **postal operators need a new operating model that puts the customer's needs at the centre of all innovations and digital transformation strategies.**

Posts can do this by redesigning customer journeys, developing new products and services, and focusing on the agile delivery of insights and contextual solutions across channels. A digitalized journey makes customers happy and frees up postal staff's time for valuable tasks. Posts therefore need to determine what matters most at critical points in the customer journey and then work relentlessly to improve the experience.

> Leveraging AI and data analytics, Posts can reimagine prospecting, advice and sales, onboarding, transactions, and administration.

There are five customer journeys that Posts can reimagine and redefine, leveraging artificial intelligence and data analytics: **prospecting, advice and sales, onboarding, transactions, and administration**.

The end goal is to completely digitalize the customer journey from start to finish, focusing on rapid digital onboarding leading to automated approvals.

# Leverage the power of big data

Postal operators deal with vast quantities of information daily, but most Posts struggle to extract or use insights from this data effectively.

Data analytics is not only a game-changer with the potential to create customer-centric capabilities; it can also fast-track postal innovation and digital transformation. Analytics can enable Posts to understand their consumers better, identify business opportunities, and reduce costs.

Opportunities for data analytics for postal operators in digital financial services exist throughout the customer lifecycle, so as to achieve a more precise and nuanced understanding of customers and markets and develop products and services aligned with customer needs. With the right data insights, postal operators can better target the customers most likely to take up DFS, enhance their pricing strategy, examine customer feedback, build loyalty programmes, segment customers, and cater to use cases.

New big data analytics tools also allow postal operators to extract additional value from existing data. Postal operators can open up their large, aggregated datasets, like national address databases or mail tracking data, to innovators to develop new services and applications.

# Redefine the operating model

Following the advent of the Internet and with the current pervasiveness of mobile devices and other digital technologies, postal services have seen a steady decline in their core business of delivering letters to recipients worldwide. Letter post accounted for one third of total industry revenue in 2018.

**In a number of markets, revenues from services other than letter post, such as financial services, have already exceeded revenue generated from letter post.** The drive to diversify has opened the door to a range of business offerings, including financial and mobile virtual network operator services. These services can powerfully reposition postal operators as innovative service providers that offer and deliver financial services on behalf of other private and public organizations.

**The tremendous growth in e-commerce also represents a golden opportunity for postal services as customers become increasingly comfortable ordering items online from emerging e-commerce platforms.** This is especially the case during the COVID-19 pandemic, which has seen a marked shift towards online shopping. As the volume of online sales increases, e-commerce providers seek cost-effective channels for the collection and delivery of purchased items.

With their long-established national networks and experience in last-mile delivery, postal operators are emerging as effective partners in this regard. **Posts need to go beyond simply optimizing existing processes by redesigning operational models and taking advantage of collaboration networks to reposition themselves.**

As an example, the launch of MPost (a collaboration between Kenya's postal services and Safaricom) has turned every mobile phone into a formal postal address, enabling members of the public to gain access to letter and parcel services no matter where in the country they are.

Non-financial services partnerships such as these help open up digital channels for Posts, allowing them to engage with their customers and, potentially, offer digital financial services – depending on their technological maturity and national regulations.

**Postal operators are also in a strong position to branch into areas demanding a high level of trust, such as government benefit transfers and other high-value, high-accountability financial payment products that consumers demand.** Existing postal services also complement and support cross-sales opportunities, leveraging existing infrastructure in new ways.

The shifting external context and increasingly competitive global environment requires postal operators to move beyond just investing in internal research and development, towards sharing outcomes with partners to foster mutual competitive advantage.

**The proprietary legacy systems that once served as a backbone for postal administrations are no longer sustainable and are becoming a burden. In this era of digital economy and innovation, postal operators are facing unavoidable digital business transformation.**

There are three digital operating models that postal operators can adopt in their journey to digital transformation:

1 **Digital as business as usual:** Postal operators in the early stages of digital transformation can take a phased approach to transformation and have the business model operate within existing business units. They can use application programming interfaces to provide access to their legacy systems and retrain or retool their staff where needed.

2 **Digital as a new line of business:** Postal operators can create new business units that foster innovation and collaboration and roll out digital initiatives within the organization.

3 **Digital native:** This approach requires postal operators to focus on new customers, economies, and capabilities.

Posts need to spend time and effort to assess each of these digital operating models within their country context and prepare a realistic blueprint for success that considers the market potential, the investment needed, and institutional capabilities.

# Digitally transform core postal operations

Four main phases, as illustrated in figure 5, constitute the transformation of Posts in their digitization journey, towards one of the three models outlined above.

**POSTS NEED TO GO BEYOND SIMPLY OPTIMIZING EXISTING PROCESSES BY REDESIGNING OPERATIONAL MODELS AND TAKING ADVANTAGE OF COLLABORATION NETWORKS TO REPOSITION THEMSELVES.**

Customers expect a postal network that scales to their needs, offers innovative digital services, and is highly engaging. To meet this challenge, postal operators must embark on the journey to be fully digital and make digital transformation a strategic priority.

The need is to have digital innovation, e-commerce, data collection, and digital identity at the heart of postal operators' efforts. This will enable Posts to propose new services, generate efficiency, and adapt organizational culture and strategies to meet the needs of the digital economy.

Digital transformation requires different infrastructure, skills, and talent for postal operators. Posts can achieve this by integrating all aspects of their business into a powerful digital core, re-engineering business processes, and transforming the business model.

Posts can also integrate emerging technologies such as the Internet of Things (IoT), artificial intelligence, and blockchain. Leveraging IoT in the supply chain, for example, enables postal services to better track, manage, analyse, and predict key business opportunities.

With a powerful digital core, postal services can quickly scale to support volumes of customer transactions as the partner ecosystem grows.

Integrating the digital core of transformed postal services with other businesses via application programming interfaces can further enhance business-to-business and business-to-consumer revenue streams. Businesses that already have a digital core can incorporate the postal supply chain into their business processes in real time, thereby offering their customers end-to-end visibility, integrity of goods, and automatic crediting and debiting of accounts via a connection to banks.

Figure 5: **Steps for digitalizing a Post's operations**

| POSTAL AUTOMATION | REVENUE-GENERATING DIGITAL SERVICES | DIGITAL PRODUCTS AND SERVICES | DIGITAL TRANSFORMATION |
|---|---|---|---|
| Enhance the efficiency of postal operations through automation of operational processes. | Offer additional digital services such as online identity verification, secure electronic mailboxes, online payments, and governments services platforms. | Augment customer value proposition through digital enhancements to existing products and services. | Build and deliver a first-class user experience through digital products and services, digital channels, technology, and automated processes. |

# POTENTIAL USE CASES TO DRIVE POSTAL DFS INNOVATION

Out of a total adult population of approximately 5.4 billion worldwide, 1.5 billion or 28% access financial services through a post office.[15] Postal networks are increasingly being recognized as powerful tools to advance financial inclusion. Recent studies have shown that postal operators are comparatively better at banking marginalized populations than other financial service providers.[16] Around the world, 90% of postal operators provide some financial services.

Postal operators are often universal service providers, which involves offering services everywhere and to everyone regardless of income.

**Governments that recognize the importance of financial inclusion have realized that postal networks can address three issues: access, affordability, and eligibility.**

Thus, governments can, and do, use postal operators to significantly extend the reach of financial services, especially in rural and remote areas.[17]

Despite these opportunities, postal operators have characteristics that could pose a challenge for the provision of digital financial services. They should carefully consider these and put in place mitigation measures to address them:

- Lack of expertise in active selling.
- Inadequate information technology infrastructure: only 46% of post offices worldwide are online.
- Lack of financial expertise.
- Unavailability of liquidity in all or part of the postal network.

Postal operators might also find it challenging to establish partnerships with certain FSPs, since Posts are not purely for-profit institutions and might not share values and strategies, or even be aware of the market potential.

There are several use cases in which postal operators can provide DFS to the underbanked population – although within the limits imposed by a Post's national regulatory regime.

> Subject to local laws and regulations, a Post can either:

- transform into a postal bank (if there is a viable business case); or
- consider partnering with a fintech; or
- become an agent for a formal financial institution, where the Post does the know-your-customer and application collection and provides agency banking services, and the formal financial institution does the loan underwriting and takes the credit risk.

In this section, we explore potential use cases of postal DFS that might be relevant and applicable to a segment of Posts – depending on their legal and regulatory context.

15 Between Financial Inclusion and Postal Banking: Is the Survival of Posts Also There?, UPU (2010).
16 Ansón, Berthaud, Klapper and Singer, Financial Inclusion and the Role of the Post Office, Policy Research Working Paper 6630, World Bank (2013).
17 Global Panorama on Postal Financial Inclusion: Business Models and Key Issues, UPU (2013).

# Use case 1: **Encourage customers to increase digital savings and deposits**

A significant benefit of access to financial services for poor and rural communities has been the safekeeping of their money and possibility to grow what little savings they have.

For the many who cannot assess the reliability of the financial institution to pay back their deposits or who fear they would not be acceptable to banks, Posts could play a greater role in capturing deposits. Digital financial services enable novel ways to invest in bonds, mutual funds, or money market funds. Emerging practices such as paying interest on daily balances and encouraging time deposits are other ways Posts can capitalize on the trust they enjoy with lower-income customers to offer them a safe, yet liquid, pathway to save money.

For example, the Kenyan National Treasury issued an M-Akiba government bond to small savers who invested via their mobile wallet.

Automated services, powered by machine learning, can also offer investment advice and financial planning services to retail investors and entrepreneurs by gleaning their financial and other data.

# Use case 2: **Reclaim lost domestic and cross-border remittance opportunities**

Posts' traditionally strong domestic and cross-border remittance service offering has been on the decline of late owing to intense competition from money transfer operators, mobile network operators, and fintechs.

Migration is on the rise, with many migrating to work abroad – in particular to the Middle East, United States of America, Europe, and Asia. As a result, there is an increasing flow of money being sent home. The World Bank[18] estimates that officially recorded annual remittance flows to low- and middle-income countries reached 554 billion USD in 2019, and that these remittances are on track to becoming the most significant external financing source in developing countries.

However, the high cost of money transfers, especially through banks, poses a challenge. There is a need for new partnerships and players to operate through Posts and MNOs to increase competition and lower remittance prices.

Given the limited access during the COVID-19 lockdowns, there has been a shift from cash-based and agent-led remittances to digital through mobile wallets and online banking. Posts need to leapfrog their digital remittance services through partnerships with fintech.

18 World Bank press release; Migration and Development Brief 34 and the latest migration and remittances data.

Posts can launch or scale up digital wallets as an attractive and low-cost option for sending or receiving money. The remittance funds can come from a bank account, a payment card, and payments from other wallet holders or cash top-ups. With digital wallets, remittances become accessible, reducing the need for IT investments in rural post offices and small merchants.

Furthermore, **the UPU's PosTransfer payment trails and standards provide postal operators with an opportunity to compete seriously with banks and other remittance providers.** The system simplifies the complex relationships entailed in a global remittance business and also simplifies the complex technical links connecting Posts to non-postal financial systems. In addition, PosTransfer allows for cheaper and faster settlement between postal operators.

Connecting the postal network to international remittance systems and using these flows to expand and upgrade access to financial services for recipients could be an economically sensible approach.

Furthermore, the partnership between Posts and the international remittance system could generate significant revenue for Posts in the short term, upgrade Posts' reputation, and subsequently allow Posts to build a customer base for more postal financial services.

# Use case 3: **Broaden and deepen payment services**

Postal networks have a wider rural and remote location presence than traditional financial service providers. Governments typically set these networks up decades ago in every administrative unit (municipality, community, and township) as part of a logistical and transport process.

Drawing the existing post office infrastructure into the financial system (and information and communication systems) as access points deserves thorough consideration. Leveraging their infrastructure and capillary presence, **post offices could facilitate nationwide, standardized access to a cashless payment system by partnering with FSPs as agents.**

If actively involved in the financial sector, postal networks could expand financial services footprint, with over 60% of access points compared to formal financial sector players. This can not only improve access to financial services for individual, but also enable small- and medium-sized businesses to access digital financial services at their doorstep in an affordable manner.

However, even with a 60% share of the outlets, post offices reach out to less than 2% of the adult population, highlighting the shortcomings in the offerings made by Posts. This limited reach is often due to poor marketing approaches, irrelevant products and services, and unsatisfactory customer service.

Certain other payment functions are also fulfilled by Posts. These are primarily the distribution of cash from public agencies to individuals (pensions, social benefits, salaries) and collection of payments (taxes and utility and telephone company bills). Nearly 55% of all Posts offer government-to-person (G2P) and person-to-government (P2G) payment services.[19] In both emerging and developed economies, the Post is often the first point of contact for P2G and G2P interactions.

In some cases, Posts have added ATM cards and online payment services. However, transaction volumes of payments settled through the post office are relatively low. Users tend not to use account-based or card-based payment services through the post office.

19 Global Panorama on Postal Financial Inclusion 2016, UPU.

Posts can also play a critical role by transforming the cash-based payment system into a cashless payment system that is broadly accessible to facilitate a range of payment services for individuals and businesses.

The payment system infrastructure can, over time, offer other financial products, such as savings and credit. Posts can also expand this agent network service into an agent/merchant aggregator to acquire, manage, train, and monitor networks of agents for their partners.

Posts can play a vital role as an extended arm of the government and be a reliable indicator of a government's willingness to leverage its postal network as a tool to achieve public policy objectives.

Clean energy providers can also use the postal network as a distribution network. Pay-as-you-go energy and water solution providers can partner with postal operators to use their branches as distribution and training centres for their products.

## Use case 4: **Partner to provide micro-insurance and micro-investments**

Insurance is one of the four pillars of financial inclusion. Micro-insurance products can make a significant positive difference in the lives of vulnerable individuals by helping households mitigate shocks and improve the management of expenses related to unforeseen events such as medical emergencies, death in the family, theft, or natural disasters.

However, there is a persistent insurance gap, particularly in developing countries. Postal operators possess or can develop characteristics such as customer understanding, product diversification, national outreach, rural advantage, and trust with customers, which have the potential to transform postal networks into well-suited providers of insurance.

Owing to restrictive regulatory regimes, a relatively small number of postal operators are offering insurance products, even among the ones that already have financial services in their portfolio of products and services.

Those that do provide insurance follow the full spectrum, from being an agent of an insurance company, to being a co-partner in an insurance scheme, to offering their own insurance products underwritten by the Post.

Figure 6 sheds light on three possible models through which postal operators can provide insurance services.

Insurance companies have also used the Post to prospect for new customers, as shown in the case of Zambia Post in box 13.

### Box 13: **Zambia Post offers complementary insurance services**

ZAMBIA POSTAL SERVICES CORPORATION

ZamPost looked at insurance as an alternative strategy to promote other postal products, rather than a standalone product and revenue stream.

To increase revenue and stand out from the competition in the Zambian money transfer market, ZamPost established a partnership with Professional Life Assurance, which added value to its Swift cash transfer service. Through the partnership, ZamPost would offer Swift cash customers Professional Life's BantuBonse, a term life insurance product, as a loyalty incentive and would pay the premiums.

Figure 6: **Postal insurance models**

| AGENCY PARTNERSHIP | FULLY-FLEDGED PARTNERSHIP | OWN INSURANCE |
|---|---|---|
| The Post collects premiums, disburses claims/benefit payouts, and issues policies on behalf of one or more insurance companies. | The Post offers insurance products in partnership with an insurance company and assumes more responsibility, including potential product development. | The Post carries the risk and offers its insurance products. |
| Kazakhstan | Zambia | India |
| Kenya | Morocco | Japan |
| Burkina Faso | | |

Beyond traditional insurance companies, and to leverage a digital partnership model, postal operators can also provide insurance services by partnering with fintechs that offer digital insurance products, including vehicle, travel, and health insurance; these products can be tailored to meet specific user needs and be delivered on demand through apps or marketplaces.

# Use case 5: **Explore the potential to offer digital credit**

Given their distribution network, customer understanding, and relationship of trust with customers, postal operators have the opportunity to provide consumer and credit intelligence for payment and financial service providers. Indeed, postal operators have forged a strong relationship of trust with customers which they do not always capitalize on.

Posts can use their relationships with end users to build data trails to improve customer segmentation and payment behaviour through real-time performance monitoring. Over time, Posts can build a robust dataset that is well suited to advanced analysis using big data, machine learning, and artificial intelligence.

Customer demographic data generated by Posts, for example, can be used to vet customers and analyse credit risk. FSPs can use such data to build products around customers' behaviours and needs.

Depending on national regulations, Posts can either request lending permission for themselves, or act as agents for credit providers such as banks, microfinance institutions, and other non-bank financial institutions. Posts can then use their extensive physical network to provide a personal touch for customers, to complement the digital delivery of credit.

# Other financial and non-financial services

Beyond the five use cases outlined above, there are several other financial and non-financial services that Posts can consider.

Regarding the uptake of financial services and specifically digital financial services, a common theme that emerges is that trust in an underlying institution and the technologies used is a significant factor in how fast customers adopt a specific product.

> Access to human contact ranks high among customer requirements when seeking a financial services provider.

Given the erosion of trust in financial services and broader formal financial institutions, **access to actual people or human contact ranks high among customer requirements when seeking a financial services provider.** This human contact is significant when dealing with the more vulnerable and underbanked segments, where customers may be less literate and therefore more reliant on advice from a trusted source.

**Posts can play a critical role, given their proximity to communities, their brand strength, and their ability to leverage a physical network to provide human contact when needed.**

Posts can also use their extensive branch network, especially in rural areas, as a touchpoint for knowledge, assistance, and training. Posts can train their staff to provide basic technical support and train users through their day-to-day interactions. **Posts can leverage branch outlets as an access point for financial and digital literacy content to spur postal financial service uptake, especially through digital channels.**

> As "trusted service providers", Posts can become the financial institution of choice for welfare recipients, civil servants working in rural areas, pensioners, and the oral (illiterate and innumerate) segment.

The UPU's report entitled The Digital Economy and Digital Postal Activities – A Global Panorama[20] found that, globally, the most commonly shared reason for postal operators to launch digital postal services is to leverage the Post's image and reputation as a trusted provider (83% of Posts mentioned this as a very significant factor for digitalization). Postal operators can take advantage of this trust premium, where it exists, to reach customers on a wide scale.

Leveraging their "trusted provider" status, Posts can become the financial institution of choice for customer segments such as welfare recipients, civil servants working in rural areas, pensioners, and the oral (illiterate and innumerate) segment.

20 The Digital Economy and Digital Postal Activities – A Global Panorama, UPU (2019).

Furthermore, postal operators capitalizing on their reach and presence can provide literacy programmes and human interaction to explain products and services better and impart basic financial skills. In some countries such as Japan, the postal operator has been offering structured financial literacy and awareness training for several years, building trust with young people and adults alike through flexible financial education seminars held across the country.

There is also an apparent demand and business case for postal operators to provide a robust and trustworthy financial services platform that protects customers from fraud and theft. As postal operators move into DFS and integrate existing applications into a single platform, ensuring that their customer interactions are secure, simple, and seamless is critical.

Postal operators are the de facto custodians of a sizeable, underutilized asset, a database of verified identities, and can expand government and customer identity services. They can employ techniques that range from traditional chip and PIN cards to biometric authentication to ensure payment security. The example of Egypt Post is outlined in box 14.

Finally, postal operators can move towards seamless integration and interoperability by linking complementary products to offer multi-channel capability as one way to meet the growing needs of customers.

A good example is Benin Post, which has linked virtual accounts with physical payment cards. Moreover, Tunisia Post is working to offer a fully-fledged e-banking system that will allow customers to securely and seamlessly access a broad range of services through a single app.

### Box 14: **Postal operator innovations in the use of biometrics**

البريد المصري
EGYPT POST

Egypt Post has automated the country's two largest conditional cash transfer programmes by issuing nearly 2 million Visa-branded EasyPay cards. These cards are biometrically authenticated at POS and ATMs to ensure that only the beneficiary of the social safety net payment can access the funds.

# CONCLUSIONS AND RECOMMENDATIONS

Posts have a significant role to play in the financial inclusion landscape. They benefit from their extensive infrastructure, large customer base, and trusted status among target customers.

Over the last decade, new players have emerged with a high degree of efficiency through a high-touch, high-tech model, coupled with a more customer-centric product development approach in the changing landscape. Most digital financial service innovations target the low- and moderate-income segment and assume digital capability but lack the intrinsic need for a personal touch to complement technology-driven delivery.

In developing countries, where financial exclusion remains high, there has been a considerable increase in smartphone penetration (a trend that persists with the falling cost of devices). Yet the pure tech focus of these innovative institutions means that they cannot build and deliver customer-centric solutions that resonate with the needs of rural and underserved populations like Posts.

The potential of postal financial services has remained unexploited owing to the underlying legal, technological, partnership, and human capacities. Postal operators need to digitalize their operations, both back office and financial services, which can be a challenge in the face of limited investment in the postal sector. To that end, Posts should consider a phased approach and adapt their business model to fit their context.

Posts also need to create more awareness among users. In many countries, the Posts are quite close to people. Posts will need to build on this relationship to keep customers informed about DFS and how to use these services.

Emerging postal operators that do not offer any financial services can evaluate the possibility of becoming cash merchants for deposit-taking institutions (banks, microfinance institutions, savings and credit cooperatives) to start learning the trade. Those in the early stages of their digitalization journey could benefit from value-driven partnerships with banks, mobile network operators, or fintechs to offer account-based financial services.

More mature postal operators need to develop secure, customer-centric applications, facilitated by partnerships with fintechs and MNOs and a move towards API-based ecosystems. Posts can also leverage smartphone penetration to deliver services using apps in addition to USSD. To accelerate the postal operator’s role in financial inclusion, governments should prominently include the Post in the national financial inclusion strategy.

**To achieve their digital financial service growth goals, Posts need to conduct a market or business impact analysis to create sustainable business plans and investment cases.**

These should clearly outline the investment needed to reach a sustainable customer base and calculate how many customers are needed to recover the investment in digitalization. Posts also need to remain patient and look towards long-term growth. MNOs do not receive any return on investment for the first four to five years but remain invested.

**For Posts, digitalization is essentially an inevitability if they are to remain relevant and competitive for their current customer base.** Transitioning from fixed-cost to variable-cost models could serve as a new approach to developing a relevant business model.

# Key recommendations

Posts hold a unique role in society and are trusted to deliver vital information and services to benefit all citizens equally.

**The nature of the postal business is changing, and the time has come for postal operators to realign themselves to serve society’s evolving needs.**

Unlike their formal financial counterparts, postal operators are the institution of choice for most underbanked populations. They can reach out and serve this segment to achieve their country's growth policies and greater socio-economic growth.

To do so requires Posts to refocus and reinvent their services to become affordable, accessible, and customer-centred. The following is a set of limited, non-binding recommendations for both policymakers and postal operators to consider when designing or redesigning their financial and digital financial products and services.

## For postal operators

### 1 Define a sustainable, compelling business plan for postal digital financial services

Posts need to develop a clear, sustainable, and customer-focused business plan for postal financial services before they embark on digitalization, product development, or services roll-out.

The business plan needs to have a realistic market assessment that defines potential customer segments; identifies revenue potential; defines products and services that are relevant for these segments; and outlines the human, infrastructure, and R&D investment needed, and the pathways to reach the target market. The business plan needs to be augmented by a realistic investment case that makes a compelling argument for government, donors, and the private sector to invest in the Post to achieve social, financial, and national development goals.

The business case might also find that there are societal and national development goals that can be met with appropriate investments that might not have sustainable revenue returns. These national development goals, which ultimately help a government reach its Sustainable Development Goal commitments, might present a stronger case for governments and donors to invest in the Post than revenue growth.

Further, the business plan should identify partnership potential with formal financial institutions, non-bank financial institutions, and fintechs to achieve the growth and service ambitions of the Post.

### 2 Strengthen technology, internal processes, and human capital

It is challenging to scale digital initiatives across the postal network with the current technology status in most postal operators. The technology may require an upgrade to enable Posts to integrate with an API-based ecosystem.

The majority of Posts lack human resources with the necessary digital and analytical skills. The existing staff members do not appreciate the changes proposed linked to digitalization, or the time investment for digitalization. There is also a late realization of benefits, which makes digitalization efforts even more challenging.

It is therefore critical to train and upskill postal employees to provide services and advice to customers. Back office and technological infrastructure must be appropriate to the postal operator's ambitions, including its outreach and DFS strategy.

### 3 Innovate processes to cater to the unique needs of customers

Posts have one great advantage over other financial service providers – their near omnipresence. In rural communities, unique challenges like orality[21] and lack of digital capabilities are a real threat to the financial inclusion agenda.

The trust built between Posts and rural customers provides a unique opportunity for postal operators to develop innovative approaches and products to serve the oral segment. Postal operators can develop interactive voice response or icon-driven models, or agent-assisted and facilitated transactions for this critical segment. These approaches can be further supported by the presence of postal workers in the field, who can guide their customers through their digital journeys.

21 Orality is thought and verbal expression in societies where the technologies of literacy and numeracy are unfamiliar to most of the population.

This presence and trust also allow Posts to provide a seamless customer journey that merges the digital with the physical world.

**Like all other financial institutions, Posts need to couple an all-digital experience with a human touch. This need for "touch and tech" is significantly higher among the poorer and most vulnerable – the core target market for Posts.**

These models could constitute unique selling propositions for Posts in the financial inclusion space.

### 4 Focus on the delivery of a first-class, secure, and seamless experience for end users

To reach the identified target markets, postal operators need to digitalize their operations, both back office and financial services, which can be a challenge in the face of limited investment in the postal sector.

However, they can adopt a phased approach and adapt the business model to the context – growing their financial services offering step by step, as the business case matures.

Emerging country Posts that do not offer any type of financial services can evaluate the possibility of becoming cash merchants for deposit-taking institutions (banks, microfinance institutions, non-bank financial institutions, and fintechs) to start learning the trade.

Those in the early stages of their digitalization journey could benefit from value-driven partnerships with banks, mobile network operators, or fintechs to offer account-based financial services.

Delivering services on local language applications and providing detailed documentation and a customer-responsive help desk in the local language can help ensure customer satisfaction and uptake.

### 5 Support in the delivery of non-financial services to customers, such as financial and digital literacy

Postal operators can work with governments in rural areas to create service centres where the rural population can access government services.

These service centres can be leveraged as an access point for financial and digital literacy content as well. This can serve the following objectives: engender trust between Posts and communities; improve the overall lives of underserved populations; augment government literacy programmes; and increase the uptake of postal financial services, especially through digital channels.

## For policymakers and regulators

### 1 Engage and enhance the role of Posts in the formulation and implementation of national development goals

Although many central bank reports mention the valuable role of post offices in payment systems, post offices are not participating in national financial system modernization projects.

There are no explicit roles envisaged for post offices in providing cashless payment instruments, and in nearly all cases, neither the post office nor the postal bank is a member of, or linked to, the clearing houses. Instead, they must settle directly with the financial institutions involved.

Policymakers ought to think of Posts as a pre-existing service delivery channel that can quickly and efficiently deliver services to citizens, with appropriate levels of investment in human capacity, infrastructure, and technology. They should continue to invest in their postal operator, including upgrading the network of postal agents to be able to deliver financial services through it. Additionally, they should ensure that enabling conditions are provided for Posts to become partners of choice for all types of FSPs.

Finally, they should channel their government payments through the postal network by depositing pensions or social transfers into postal accounts, or through other banks that use the postal network as cash agents.

## 2 Foster a robust enabling environment to facilitate digital financial services

To promote the uptake of postal financial and digital financial services and products, there is a clear need for a conducive regulatory environment that is pro-digital finance for the entire sector. This enabling environment should extend beyond financial regulations to encompass access to affordable technologies, for example, by ensuring that smartphones, Internet access, and data are accessible and affordable.

In addition, interoperability between FSPs and other stakeholders such as credit bureaus, identity verifiers, and payment services providers, is critical to the success of DFS providers in a country.

To promote digital liquidity through postal operators, regulators could also establish guidelines to incentivize postal digital financial transactions, thus encouraging a move away from a reliance on cash. These incentives could include tax deduction, discounts, or cash-back facilities when using digital cash or cards.

Additional measures could include shifting social welfare payments, conditional- and unconditional- cash transfers, and pensions to digital channels, thus ensuring that all bulk transfers are made to digital wallets, potentially through Posts, to increase transparency, strengthen accountability, and reduce the potential for leakages.

Policymakers could also adjust deposit insurance for the digital age. The insurance should be focused on types of products and services, rather than the channel employed to access them. Digital liquidity in mobile wallets and digital cash should be insured at an appropriate level against theft, fraud, and cyberattacks.

## 3 Promote a conducive environment that allows for new players and new approaches to offering digital financial services

In response to market development, regulatory changes can allow for the provision of e-money by non-bank players such as postal operators. E-money accounts also come with a cap on the total balance and limits on the number and value of transactions, thus making it possible for regulators to simplify the customer due diligence requirements.

This enables accounts to be opened with just one ID and digital verification of the customer's identity – referred to as e-KYC. Regulators can develop a dedicated regulatory framework for new entrants, new products, and other innovations to facilitate faster market entry.

## 4 Strengthen regulations that promote consumer protection

Policymakers can adopt rules to ensure clear and timely disclosure by standardizing total-cost metrics for digital products and services, requiring pricing information to be provided before transactions are undertaken, and adapting disclosures for mobile phone screens. For example, in 2016, the Competition Authority of Kenya issued rules requiring providers to disclose all applicable charges for mobile money services before consumers complete a transaction.

Furthermore, regulators can introduce new laws and regulations on data protection and privacy that specify the rights of individuals who are the subject of data, including rights on erasure, informed consent, and portability, and the obligations of the organizations that collect and store data.

## 5 Enable open infrastructure and promote a level playing field

To reap the benefits of DFS, a lasting commitment should be made by regulators to encourage innovation, promote interoperability, and establish standards for access to data, technology, and infrastructure.

Regulators and policymakers can encourage a level playing field by encouraging partnerships with new entrants, establishing new open infrastructure, or reviewing and changing the access criteria for critical financial infrastructure.

## 6 Support Post–fintech partnerships through a "postal accelerator programme"

Postal operators have a unique value proposition in the financial inclusion space. Their vast network in rural areas, coupled with the trust cultivated with customers over the decades, places them in a great position to offer a unique touch-and-tech model.

Fintechs, on the other hand, offer innovative and cost-effective models to deliver financial services. However, because of their high-tech model, most fintechs lack understanding of the low- and moderate-income segment. A Post–fintech partnership is a win-win formula. It is worth noting, however, that it is important to have the model pilot tested before roll-out.

The Post–fintech partnership also offers excellent opportunities for Posts to innovate, where Posts do not have the capacity to organically self-innovate. Fintech partnerships are key in creating dynamic and customer-centric changes, rather than just outsourcing platform capabilities. The critical success factors in building these partnerships include identifying areas where Posts can lean on external capabilities and where fintechs can cost-effectively offer better customer experiences, while ensuring equitable value for both parties.

Such partnerships can best be achieved in a controlled environment such as a national regulatory sandbox, supported by a "postal innovation incubator and accelerator" at regional or continental level, by the regional postal umbrella organization, and by industry ecosystem players.

**We find that there is a clear opportunity to create postal digitalization accelerators.** Under the aegis of the UPU, in collaboration with the restricted unions and regulators, these accelerators could be set up at the regional or continental level and would facilitate and enhance the uptake of digital technology by Posts.

These accelerators can focus on:

- supporting Posts in their transformation (provision of experts, products/solutions, policies, processes, practices, risk management, and partnerships)
- early-stage and incubation support, including design sprints, proof of concept, and strategy
- reviewing the technology landscape and brokering Post–fintech partnerships
- driving social and responsible design of financial solutions for Posts by fintechs
- organizing challenges and hackathons for fintechs to address specific needs of Posts
- helping Posts understand opportunities and risks associated with fintech collaborations, including helping them ensure fintech solutions are appropriately tailored to their needs
- assessing the level of integration and APIs required and feasible for Post–fintech collaborations.

# ANNEXES

# A.1: Disclaimers



This publication by the UPU constitutes research in progress of an informational character for which no guarantees or assurances are provided; in this regard, it shall not be deemed to represent the official position or opinions of the UPU or its staff members, or of UPU member countries.

Moreover, the depiction and use of boundaries, geographic names and related data shown on maps and included in lists, tables, documents, and databases are not warranted to be error-free, nor do they necessarily imply official endorsement or acceptance by the UPU.

# A.2: Acknowledgements

This report was prepared by a team from MicroSave Consulting (MSC) under the guidance and supervision of Saleh Khan, Sergey Dukelskiy, and Siva Somasundram from the UPU. The MSC team, led by Anup Singh, comprised Justus Njeru, Juliet Ongwae, and Diana Siddiqui.

The study team extends its thanks to Dave Kim (Programme Officer, Financial Services for the Poor, Bill & Melinda Gates Foundation) and Mauree Vijay (Programme Coordinator, Policy and Technology Watch Division, International Telecommunication Union) for their early input and guidance on the focus of research. The study has also greatly benefited from inputs and suggestions from Amina Tirana (Visa Inc.). The team wishes to acknowledge and thank all stakeholders for their views on the potential of digital innovations for Posts.

Prior to publication, this study was presented to a focused group of designated operators 27th Postal Union Congress held in Abidjan, Côte d'Ivoire in August 2021.

The views expressed in this paper reflect the opinions of the authors alone and do not necessarily reflect those of the UPU or its partners.

# A.3: About FITAF

This study was made possible with funding from the UPU's Financial Inclusion Technical Assistance Facility (FITAF). FITAF was created in 2017 with funding and support from the Bill & Melinda Gates Foundation and Visa Inc.

FITAF supports postal operators in digitalizing their financial services to better meet the needs of low- and moderate-income populations. In addition to providing technical assistance, FITAF provides learning through the publication of thematic studies.

These thematic studies capture successes, lessons learned, and critical challenges faced by Posts in the implementation or planning of digital financial services projects.

# A.4: SWOT analysis: Postal digital financial services

Innovation-driven growth in DFS can help Posts become sustainable in their business operations. It can also make Posts an essential stakeholder in achieving national development objectives, especially those related to economic growth, financial inclusion and the reduction of inequality.

With the right investments and strategies, Posts can emerge as critical players in the DFS ecosystem – ensuring that customers have access to affordable and inclusive financial services.

Posts have applied five different models as suits the specific country's context vis-à-vis regulatory framework, infrastructural landscape, the potential to scale, and the value proposition. Through these business models, Posts have emerged as either DFS providers or a DFS provider's support service.

From our analysis of the postal financial services sector, and the nature of the broader DFS sector, the strengths, weaknesses, opportunities, and threats (SWOT) for Posts in DFS are as follows:

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## STRENGHTS

**High community trust in the Post as an institution.**

**Openness of governments to allow Posts to play a facilitation role to enhance financial inclusion and achieve national development objectives.**

**A well-established physical distribution network of post offices augmented by a cadre of last-mile postal workers.**

**Existing regulatory provision to allow Posts to offer basic financial services (in most countries).**

**Established agency network and coordination structures.**

**Experience in cash management.**

**Experience in doorstep financial service delivery, which played a critical role during the pandemic.**

**Experience in low-value, high-volume transactions.**

W

## WEAKNESSES

**Low investment to upgrade existing infrastructure owing to reliance on government support, and the fact that a large majority of emerging country Posts are not financially self-sustaining.**

**Outdated or limited technology further exacerbated by limited investment by government.**

**Limited connectivity of remote postal outlets in terms of both broadband and grid electricity.**

**Human resources with limited digital finance skills for delivery of services to the last mile.**

**Low regular budget investment earmarked for infrastructure upgrades and upskilling existing employees.**

O

## OPPORTUNITIES

**Governments can leverage the postal network to deliver social, financial, and other public services at scale, without the cost-intensive need to create a new distribution network.**

**An existing large pool of customers, most of whom have high degrees of trust in the Post as an institution, constituting a potential market for DFS players.**

**Ability to complement the agency model through an established vast infrastructure and branch network.**

**Ability to use this branch network as DFS super agents for mobile network operators and banks.**

**Formal financial institutions and other financial service providers can use the Post to deliver digital and financial inclusion for underserved and unserved markets, leveraging the public trust in the Post.**

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## THREATS

**Low support and investment from government in most cases.**

**Lack of in-house strategic vision and strategic roadmap for postal financial services and DFS.**

**Ability of partners to leverage the postal brand, and the trust it enjoys in communities, to build their own market and reap the largest share of revenue.**

**Competition from new entrants that not only cannibalizes the postal financial services market but can dominate it in partnership with a weak Post.**

**Weak pricing models that do not support the cost of innovation.**

# A.5: List of stakeholders interviewed

**Mohamed Zouhaier**
*Head of Digital Services Unit*
La Poste Tunisienne
**Tunisia**

**Iryna Saksonava**
*Deputy Director General*
Belpochta
**Belarus**

**Andrey Bardyshev**
*Head of Remittance and Fintech Services*
JSC Russian Post
**Russian Federation**

**Eliza Ghaltakhchyan**
*Head of Money Transfer department*
Haypost CJSC
**Armenia**

**James Kwofie**
*Acting Managing Director*
Ghana Post
**Ghana**

**Armand B. Dissima Awata**
*Director of Financial Clientele*
Société des postes du Togo
**Togo**

**Bassirou Wade**
*Directeur General*
PosteFinances
**Senegal**

**Jacinta Kasingiu**
*Special Projects Head*
Postbank Kenya
**Kenya**

**Vijay Mauree**
*Programme Coordinator*
International Technology Group, ITU
**Switzerland**

**Elizabeth McQuerry**
*Partner and Payment Expert*
Glenbrook Partners
**United States of America**

**Dave Kim**
*Programme Officer on the Financial Services for the Poor team*
Bill & Melinda Gates Foundation
**United States of America**

**Rafe Mazer**
*Project Director, Consumer Protection*
Innovations for Poverty Action
**United States of America**

**Hans Boon**
*CEO/Managing Director*
PostFinance International Development B.V.
**Netherlands**

**Sarah Willis Ertur**
*Vice President, Financial Health, Corporate Responsibility*
JPMorgan Chase & Co.
**United States of America**

**Sheila Okiro**
*Chief Investment Officer, Financial Intermediation and Inclusion*
African Development Bank
**Côte d'Ivoire (Rep.)**

**Thierry Kneissler**
*Managing Director*
Kneissler Consulting GmbH
**Germany**

**Shimul Ra**
*Partnerships and Regulatory Affairs*
Dmoney
**Bangladesh**

**Mouna Balti**
*Head of International Cooperation Office*
Ministry of Communication Technologies and Digital Transformation
**Tunisia**

**Hamdaratu Zakaria**
*Executive Secretary*
Postal and Courier Services Regulatory Commission
**Ghana**

**Michel Yaovi Galley**
*Director General*
Regulatory Authority for the Postal Sector and Telecommunications
**Togo**

**Zakia Hazzaz**
*Director of Development and Partnerships*
Al Barid Bank
**Morocco**

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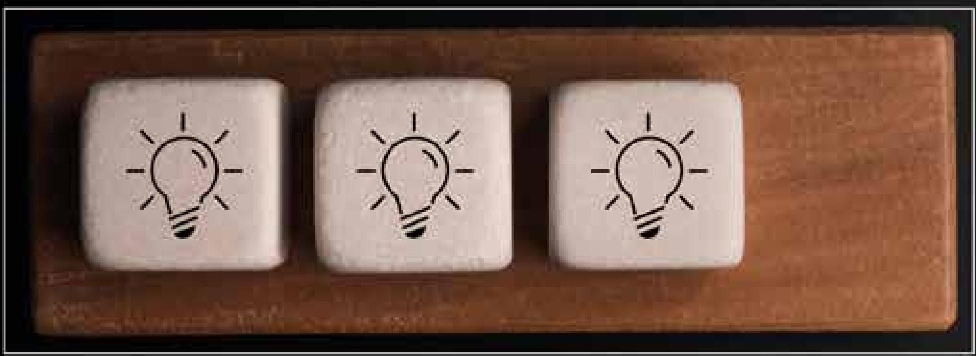
**POSTAL OPERATORS NEED A NEW OPERATING MODEL THAT PUTS THE CUSTOMER'S NEEDS AT THE CENTRE OF ALL INNOVATIONS AND DIGITAL TRANSFORMATION STRATEGIES.**



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**UNIVERSAL POSTAL UNION**
International bureau
Weltpoststrasse 4
3015 BERNE
SWITZERLAND

Tel: +41 31 350 31 11
E-mail: info@upu.int

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