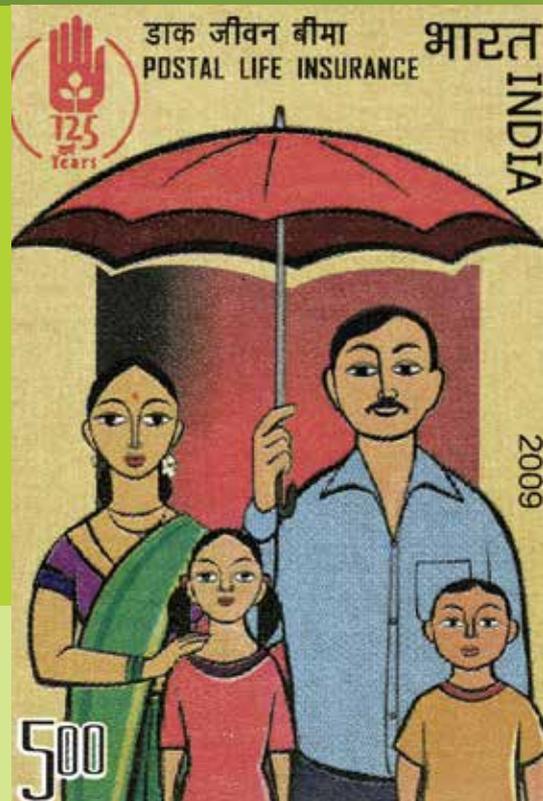


Advancing financial inclusion through access to insurance: the role of postal networks



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## Executive summary

With 1.5 billion people worldwide getting access to financial services through a post office, postal networks are powerful tools to advance financial inclusion. Posts have already proved to have comparative advantages in remote areas and with specific vulnerable groups – the poor, the less educated and those in the informal economy – compared with other financial services providers.

Insurance is one of four pillars of financial inclusion. 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, a death in the family, theft or natural disasters. However, there is a persistent insurance gap, particularly in developing countries.

Posts possess or can develop characteristics such as client understanding, product diversification, national outreach, rural advantage and trust with clients that have the potential to transform postal networks into well-suited providers of insurance. Nevertheless, a still relatively small number of Posts are offering insurance products, even among the ones that already have financial services in their portfolio of products and services. Only 38% of Posts are offering insurance, and 34% if we consider developing countries.

Through the experience of six Posts of developing countries – Kazakhstan, Burkina Faso, Kenya, Morocco, Zambia and India – this study presents three types of business models for postal insurance:

- **Agency partnership** – The Post collects premiums, disburses claims/benefit payouts and issues policies on behalf of one or more insurance companies.
- **Full-fledged partnership** – The Post offers insurance products in partnership with an insurance company and

assumes more responsibility in all stages of the operation, including potentially product development.

- **Own insurance** – The Post carries the risk and offers its own insurance products.

There is no one-size-fits-all recipe, and Posts, insurance companies and policymakers should all understand the potential in their contexts for expanding postal insurance.

All three models offer their own advantages and disadvantages, depending on legal and regulatory frameworks, the Post's level of IT infrastructure, and insurance market characteristics, among other factors.

The agency partnership and full-fledged partnership models are suited to Posts entering the insurance market. In both cases, the Post will rely on insurance companies' expertise and activities. However, the Post's involvement in the operation will vary significantly. The second model requires more postal involvement, but also allows the Post to claim and negotiate a more favourable revenue share in its partnership with insurance companies.

Insurance companies can also benefit from the collaboration with Posts in these two business models. In the agency partnership model, Posts can represent a viable alternative to reduce the high costs associated with collecting premiums, paying claims and issuing new policies. In the full-fledged partnership model, besides access to new markets, insurance companies can usually rely on Posts' input in the product development stage and on a more active marketing and sales force.

The third model, the own insurance model, will not have the involvement of any insurance company and will require from Posts high levels of expertise in insurance and large investments. Posts that apply this model tend to have a long tradition in offering financial services.

Policymakers can also play a key role in expanding postal insurance through the promotion of appropriate regulatory environments. The agency and the full-fledged partnership business models only require Posts to be allowed to provide agency services. For the own insurance model, it is recommended that postal insurance be regulated by the insurance regulatory framework.

# Introduction

Out of a total adult population of approximately 5.4 billion worldwide, 1.5 billion – or 28% – are getting access to financial services through a post office.<sup>1</sup> Postal networks are increasingly being recognized as powerful tools to advance financial inclusion. Indeed, recent studies have shown that Posts are comparatively better at banking specific vulnerable groups – the poor, the less educated and those in the informal economy – than other financial services providers.<sup>2</sup> Around the world, 90% of postal operators provide some sort of financial services; however, only 38% of Posts are offering insurance, and the percentage drops to 34% when considering only Posts in developing countries.<sup>3</sup>

This study presents three types of business models for postal insurance. In most cases, Posts provide insurance in partnership with insurance companies, whether through contract service agreements or by establishing more extensive partnerships that require greater involvement from Posts. These two business



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models have distinct features, and the best option for Posts and insurance companies depends on the context. Going further, a few Posts have launched postal insurance products on their own. This model requires a higher level of expertise in insurance and the corresponding regulatory framework. Posts that apply this model tend to have a long tradition of offering financial services, thus playing a key role in expanding insurance coverage in their countries.

Through the experience of six Posts of developing countries – Kazakhstan, Burkina Faso, Kenya, Morocco, Zambia and India – readers will become familiar with the characteristics of each model and will be able to draw lessons:

- Postal operators will gain valuable information that could be helpful in designing their own strategy for postal insurance.
- Insurance companies looking for new distribution channels will learn more about postal networks.
- Policymakers and other stakeholders will access information on how they can integrate Posts into their financial inclusion strategies.

The study starts with an overview of financial inclusion and what Posts have done, particularly in the field of insurance. Then, the three types of business models for postal insurance are presented along with case studies based on the experience of six Posts. The study concludes by providing recommendations for Posts, insurance companies and policymakers on how they can work together to expand insurance coverage in their countries.

The study draws on the existing literature on Posts, insurance and financial inclusion. As well, much of the information and analysis presented, particularly the case studies, is based on the experience and views of practitioners and high-ranking executives of postal operators and insurance companies.<sup>4</sup>

<sup>1</sup> Anson & Toledano, 2010, "Between Financial Inclusion and Postal Banking: Is the Survival of Posts Also There?", Universal Postal Union.

<sup>2</sup> Anson, Berthaud, Klapper & Singer, 2013, "Financial Inclusion and the Role of the Post Office", World Bank, Policy Research Working Paper 6630.

<sup>3</sup> UPU questionnaire on postal financial inclusion 2015, data covering 201 postal operators from 192 countries and territories.

<sup>4</sup> Information was gathered through questionnaires, which were tailor-made for each respondent.

# Financial inclusion and Posts

A growing body of research suggests that access to and use of financial services has a beneficial impact on individuals' lives, particularly for vulnerable populations, through improvements in household consumption and well-being<sup>5</sup>.

Appropriate financial services can help vulnerable households reduce risk, build resilience, smoothen consumption, safeguard savings, better manage the consequences of unforeseen events, and invest in assets and grow businesses. Without access to these services, poor households have to rely on informal mechanisms, which are often insufficient, unreliable and expensive. Financial inclusion strives to ensure that all households and businesses, regardless of their income levels, have access to and are able to make use of financial services.

Much has been done in recent years to advance financial inclusion, and the results are starting to appear. In 2014, 62% of the world's adult population had access to formal finance, compared with 51% in 2011. Despite the progress, there are still 2 billion adults who are excluded from the formal financial system.<sup>6</sup> Furthermore, as shown in Figure 1, gaps in gender and income persist. In 2014, 42% of women were unbanked, compared with 35% of men – the same percentage point gap of 7% seen in 2011. Also, although in the developing world the gap between the poorest 40% and the richest 60% decreased by 6%, most of this change was due to the East Asia and Pacific region's performance; in all the other regions, the gap remained the same.

Post offices can play a powerful role in advancing financial inclusion.<sup>7</sup> Posts' widespread presence in rural and poor areas makes it possible for them to fulfil an important role, that

of reaching out to individuals who have no access to formal financial services. Research suggests that post offices are more likely than traditional financial institutions to reach out to individuals at the greatest risk of financial exclusion, such as the poor and less educated and those in the informal economy.<sup>8</sup> Additional research also shows that postal networks are an asset in achieving the objectives of financial inclusion for women. In a sample of 60 developing countries where the Post offers financial services, the share of female clients at the Post is twice that at other financial institutions.<sup>9</sup> This can be explained by the fact that Posts in general have a non-discriminatory approach that does not exclude any type of clients.

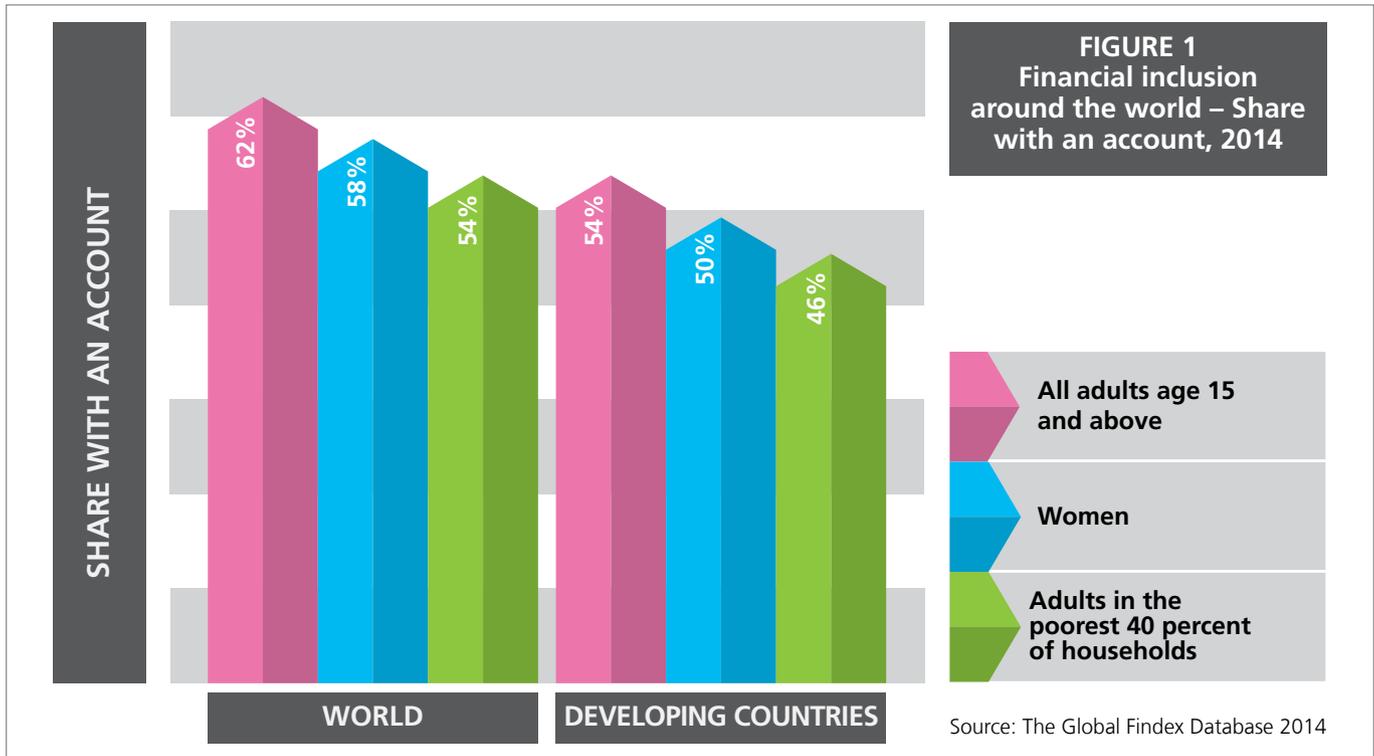
It is possible to highlight the following three main reasons why Posts are successful providers of financial services:

## Historical reasons

Posts have been offering financial services for over 150 years. In the United Kingdom, the first postal account was opened in 1861.<sup>10</sup> The giro payment system – a retail payment system based on written transfer and standing payment orders submitted through the Post – was first introduced and institutionalized on a national scale in 1883 by the Habsburg Empire, covering present-day Austria, Hungary and the various Balkan and central European countries under its rule.<sup>11</sup> Insurance is also part of this long tradition of financial services offered by Posts: India Post introduced an insurance scheme targeting its own employees in 1884, extending it to employees of other public institutions in 1888.<sup>12</sup>

## Structural changes in the postal market

Structural changes in the postal market also contributed to the increase of financial services in Posts' portfolios. With the volume of mail dropping and no significant changes in the high share of fixed costs of mail operations, the profitability of Posts has been adversely affected.<sup>13</sup> Financial services are a feasible alternative for Posts looking to diversify their sources of income and to leverage their physical and human capital. The share of postal revenues from financial services increased, on average,



from 15% in 2001 to nearly 21% in 2013.<sup>14</sup> In many countries, there is significant potential to increase the contribution of financial service revenue if Posts can improve their product offerings.

## Universal mission of Posts

Posts are known for their universal service obligation, which involves offering services everywhere 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. In countries like Azerbaijan, Brazil, India, Kazakhstan, Morocco and South Africa, to name a few, governments are using Posts to significantly expand the provision of financial services to individuals.<sup>15</sup>

<sup>5</sup> Cull, Ehrbeck & Holle, 2014, "Financial Inclusion and Development: Recent Impact Evidence", CGAP Focus Note No. 92

<sup>6</sup> The Global Findex Database 2014

<sup>7</sup> World Bank, 2014, "Global Financial Development Report 2014: Financial Inclusion", Washington, DC, World Bank.

<sup>8</sup> Anson, Berthaud, Klapper & Singer, 2013, "Financial Inclusion and the Role of the Post Office", World Bank, Policy Research Working Paper 6630.

<sup>9</sup> Rao, 2015, "Gender and Financial Inclusion Through the Post", Universal Postal Union and UN Women

<sup>10</sup> Anson, Berthaud, Klapper & Singer, 2013, "Financial Inclusion and the Role of the Post Office", World Bank, Policy Research Working Paper 6630.

<sup>11</sup> Scher, 2001, "Postal Savings and the Provision of Financial Services: Policy Issues and Asian Experiences in the Use of the Postal Infrastructure for Savings Mobilization", DESA Discussion Paper No. 22.

<sup>12</sup> India Post's website: [www.postallifeinsurance.gov.in/Static/PLICustIntro.aspx](http://www.postallifeinsurance.gov.in/Static/PLICustIntro.aspx)

<sup>13</sup> Main Developments in the Postal Sector (2010–2013), Study for the European Commission, Directorate General for Internal Market and Services.

<sup>14</sup> UPU Statistics, 2012 and 2013. It should be noted that the financial activities of Japan Post Group represent approximately one third of global postal revenues and have therefore been excluded from this total to ensure better representativeness. If we include Japan, financial services represent 45.7% of postal revenues worldwide.

<sup>15</sup> Berthaud & Davico, 2013, "Global Panorama on Postal Financial Inclusion: Business Models and Key Issues", Universal Postal Union.

## Can postal operators offer insurance?

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, a death in the family, theft or natural disasters. However, the uptake of insurance products is still incipient.<sup>16</sup> In developing economies, only 17% of adults pay for health insurance (in addition to national health insurance, where applicable), and only 6% purchase crop, rainfall or livestock insurance.<sup>17</sup> The insurance gap poses both challenges and opportunities for governments and policymakers, insurance companies, and Posts to advance financial inclusion.

A relatively small number of Posts are offering insurance products, even among those that already have financial services in their portfolio of products and services. As of 2015, out of 178 Posts around the world providing financial services, only 72 offer insurance to their clients. Proportionally, there are more Posts in developed countries offering insurance (39.1%) than in developing countries (34.1%).<sup>18</sup>

### Potential advantages

Posts present characteristics that have the potential to transform postal networks into well-suited providers of insurance. These characteristics, when properly developed, can provide Posts with the following advantages:

#### **Client understanding**

A good understanding of customers is essential for creating and adapting insurance products to customer needs. Over the years, Posts have built a strong relationship with their clientele



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through different services. Posts do not always capitalize on this relationship but could use it to get first-hand feedback from potential users of postal insurance.

### Product diversification

The willingness to diversify products and to give relevance to insurance among the range of postal services is a factor that can contribute to Posts' success in the insurance field. Many postal networks around the world are evolving from mail-centred bureaucracies to more diversified commercial enterprises with a clear mandate to expand financial inclusion.<sup>19</sup> Although mail services have historically been the core business of the Post, decision-makers are increasingly looking for options to enlarge the portfolio of services.

### National outreach

Owing to their universal service mandate, postal networks are often extremely well spread out in their countries. In some countries, such as India and Egypt, the postal network is larger than the networks of all commercial banks taken together.<sup>20</sup>

### Rural advantage

Some Posts rely on their network of postmasters to provide financial services to customers. For instance, Bangladesh Post's clients can receive remittances at their home or workplace. Similar approaches based on the network of postmasters could be used for postal insurance. Posts' presence is particularly relevant in rural areas – zones generally of little interest to other financial services providers. Postmasters could be a powerful sales force in rural areas.

### Trust with clients

In many countries, Posts have forged a strong relationship of trust with their clients, and this relationship can positively impact the uptake of insurance products, as has been the case with other financial services.<sup>21</sup> Although there are exceptions, Posts are generally regarded as trustworthy, and in some countries this trustworthiness can be extremely significant. In Brazil, for example, the Post is considered the most trusted institution in the country.<sup>22</sup> Posts are also very effective at reaching populations that are neglected by other financial institutions. As mentioned previously, a recent UPU-UN Women study has shown that in developing countries where Posts offer account-based financial services, Posts have twice as many female clients as banks.<sup>23</sup>

## Potential challenges

At the same time, it is important to look at Posts' potential characteristics that could pose a challenge for the provision of insurance. Posts should consider these issues carefully and, if necessary, put in place mitigation measures to address them:

- › Lack of expertise in active selling;
- › Inadequate IT infrastructure: only 46% of post offices worldwide are online.<sup>24</sup>

For some postal operators, further important considerations include:

- › Lack of financial expertise;
- › Unavailability of liquidity in all or part of the postal network.

In addition, some Posts might find it difficult to establish partnerships with insurance companies, as Posts are not purely for-profit institutions and might not share the values and strategies, or even be aware of the market potential. Posts that are already offering other financial services might not face big challenges in these areas; however, Posts introducing insurance products without previous experience may struggle to succeed in this new endeavour.

The potential challenges and how to overcome them will depend on how the Post is involved in the offer of insurance products. There are different business models that Posts can adopt to provide insurance, and the opportunities and challenges will vary accordingly.

<sup>16</sup> Cull, Ehrbeck & Holle, 2014, "Financial Inclusion and Development: Recent Impact Evidence", CGAP Focus Note No. 92.

<sup>17</sup> Global Financial Development Report 2014.

<sup>18</sup> UPU questionnaire on postal financial inclusion 2015.

<sup>19</sup> Berthaud & Davico, 2013, "Global Panorama on Financial Inclusion: Key Issues and Business Models", Universal Postal Union.

<sup>20</sup> El-Zoghbi & Martinez, 2012, "Can Postal Networks Advance Financial Inclusion in the Arab World?", CGAP Brief.

<sup>21</sup> Scher, 2001, "Postal Savings and the Provision of Financial Services: Policy Issues and Asian Experiences in the Use of the Postal Infrastructure for Savings Mobilization", DESA Discussion Paper No. 22.

<sup>22</sup> The 14th edition of the "Marcas de Confiança" ("Trusted Brands") survey, conducted by Readers' Digest in partnership with IBOPE, was carried out online with 1,300 individuals between 5 and 19 May 2015, [www.selecoes.com.br/marcasdeconfianca](http://www.selecoes.com.br/marcasdeconfianca).

<sup>23</sup> Rao, S. (2015) "Gender and Financial Inclusion Through the Post," UN Women and the Universal Postal Union, New York and Berne. <http://www.unwomen.org/en/digital-library/publications/2015/6/gender-and-financial-inclusion-through-the-post>.

<sup>24</sup> UPU questionnaire on postal financial inclusion 2015.

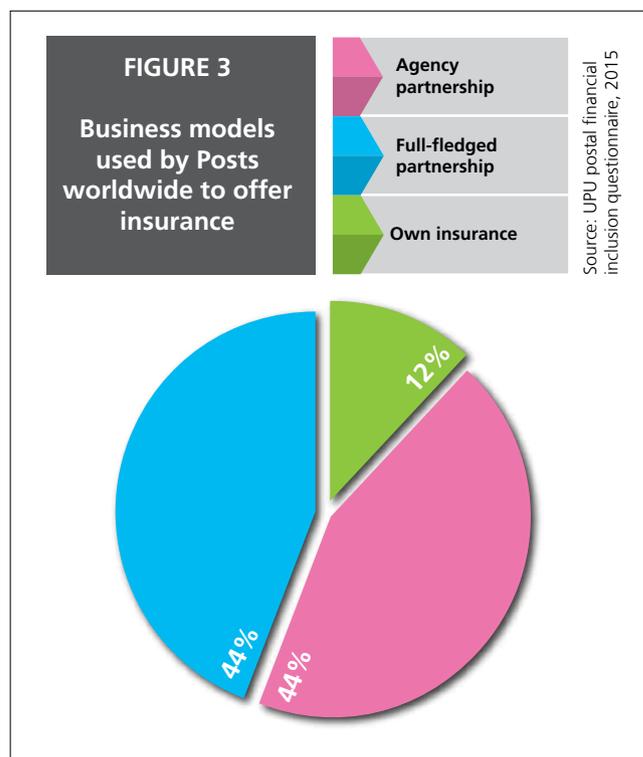
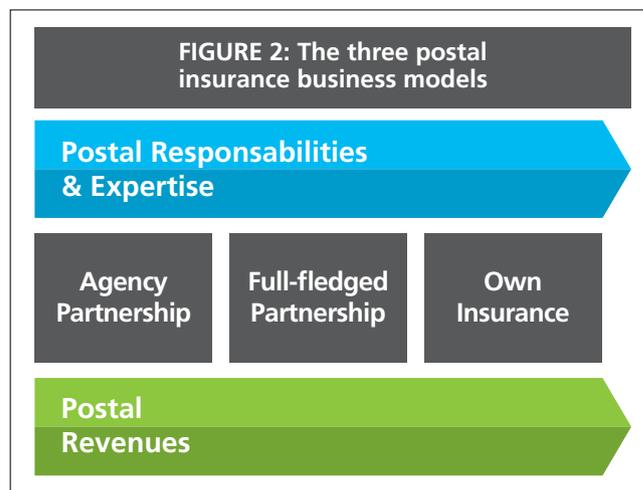
## How can postal operators offer insurance?

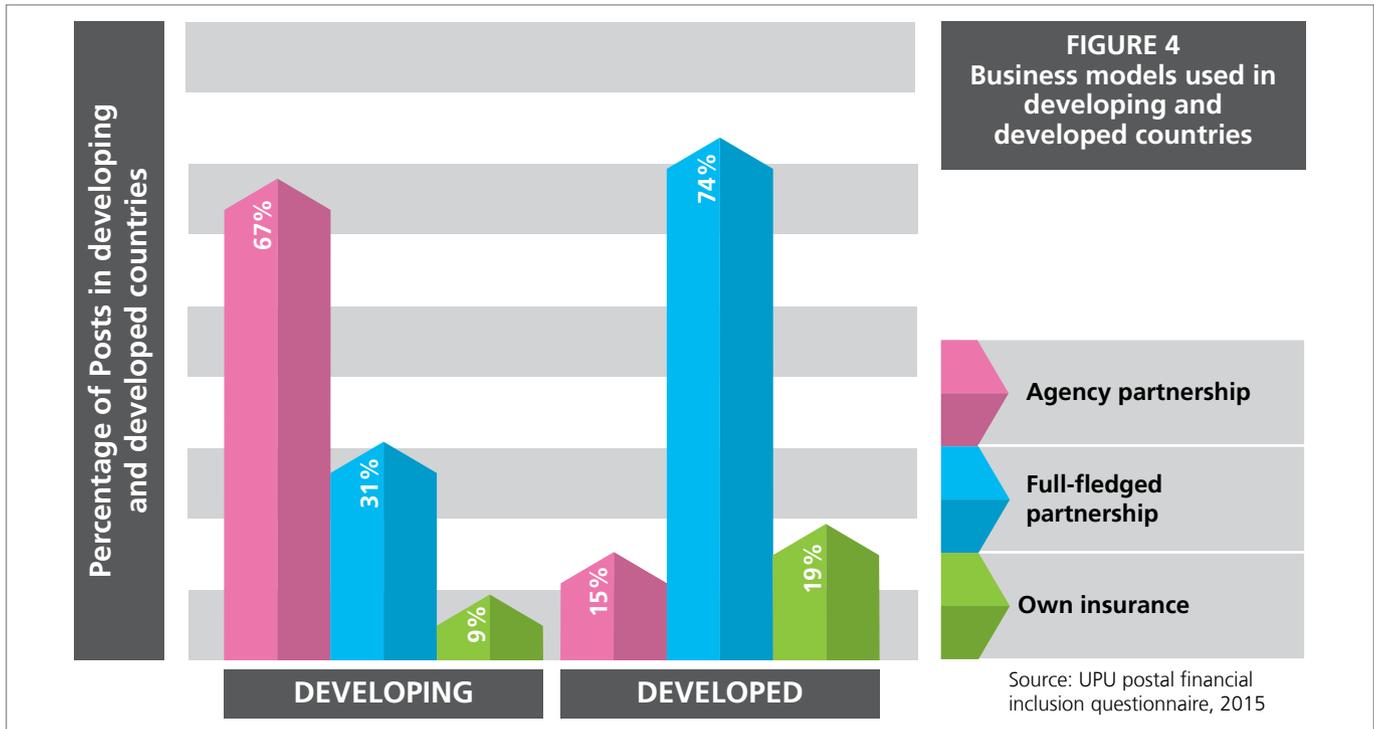
The kind of business model that should be adopted depends on various elements, such as the legal and regulatory frameworks in the country, the Post's levels of IT infrastructure and expertise on financial services, and local insurance market characteristics, to name just a few. Therefore, although Posts willing to enter this market can draw on other Posts' experiences, there is no one-size-fits-all recipe. Posts need to consider their own context and come up with tailor-made strategies.

The business models used by Posts to deliver insurance to customers covered in this study are:

- **Agency partnership** – The Post collects premiums, disburses claims/benefit payouts and issues policies on behalf of one or more insurance companies.
- **Full-fledged partnership** – The Post offers insurance products in partnership with an insurance company and assumes more responsibility in all stages of the operation, particularly product development.
- **Own insurance** – The Post offers its own insurance products.

These three business models involve varying degrees of involvement by the Post in the operation. As illustrated in Figure 2, as the Post's involvement increases, so does the revenue potential. Having more responsibility in the operation allows the Post to claim and negotiate a more favourable revenue share in its partnership with insurance companies. In the last case, when the Post offers its own insurance products, all revenues remain with the Post.





The same rationale applies for expertise requirements. As the Post's involvement increases – with the Post ultimately becoming responsible for all stages of the operation in the own insurance model – so do the expertise requirements.

As illustrated in Figure 3, there are as many Posts using the simplest agency partnership model (44%), as Posts that have decided to take more responsibility and evolve in their partnerships with insurers (44%). However only a small number have introduced their own line of insurance products (12%). The full-fledged partnership is growing in popularity, as only 18% of Posts were using it in 2012, and 67% were using the agency partnership model. Posts in developed countries use the full-fledged partnership business model much more than the agency model, unlike Posts in developing countries which clearly favour the agency partnership model (see Figure 4).



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# Business models for postal insurance

This section takes a closer look at each of the three business models for postal insurance. The success of a Post offering insurance is the result of a good fit between the business model adopted and the Post's context and characteristics.

## Agency partnership model

Many Posts are already using the agency partnership model, making it possible for their clients to have access to a variety of financial services from other providers (e.g. banking services and money transfers). In this model, the Post makes its physical infrastructure and staff available to one or more partners for transactional financial services, generally in exchange for a fee for each transaction processed by the Post.

From the Post's point of view, this model is the easiest to implement, requiring minimal initial human and financial investment. Moreover, the postal regulatory framework usually already accommodates agency contracts, allowing Posts to serve as agents for financial and other institutions. For these reasons, the agency partnership model is the most common model through which Posts offer financial services. When this model is used for insurance, the Post facilitates financial transactions for insurance companies by collecting premiums, paying out claims to clients, and in some cases even issuing policies.

Insurance companies look at Posts in this model as a solution to downstream. In contexts where insurance companies cannot leverage an existing banking or digital finance network, Posts can be a viable alternative for these companies to reduce the high costs of collecting premiums, paying claims and issuing

new policies. However, this model does not overcome the obstacle of reaching new customers in areas where insurance companies have no easy access, as Posts are only timidly involved in the sales process. Marketing campaigns and use of an active sales force are not Posts' responsibilities.

Posts also rely on insurance companies to address other potential challenges. For example, Box 2 shows that SONAPOST of Burkina Faso has been facing challenges related to its clients' lack of insurance culture and financial education, and its insurance partners are not helping the Post raise awareness.

There are other scenarios where the collaboration might not work very well for one or both parties. Posts might find themselves in a situation where they have absolutely no control over the business development, as they rely entirely on the insurance companies' brands and marketing campaigns to attract new clients to postal outlets. One such example is the Postal Corporation of Kenya, which was not able to put in place measures to counter the decline in demand for the insurance products it was offering. What is more, the Post had little or no say on the quality of the products, as illustrated in Box 3. The agency partnership model presents a first option for Posts and insurance companies to collaborate. Through this model, Posts can offer insurance companies access to new markets. However, significant growth in the number of insurance policies cannot be expected without active marketing and sales, particularly when targeting a clientele that is unfamiliar with insurance.

## Full-fledged partnership model

The full-fledged partnership model goes a step further in strengthening the relationship between Posts and insurance companies, with both parties more committed to delivering results than with the agency partnership model.

In this model, Posts are more involved in the business, assuming greater responsibility and making larger investments. Posts play an essential role in the marketing, sales and claim processes. Also, unlike with the first model, Posts can participate in the

Since 2011 Kazpost has established agreements with nine insurance companies to provide agency services for their products. Based on an agency partnership model, Kazpost issues insurance policies on behalf of the companies and in exchange charges a fee per transaction concluded. Insurance products are offered in 94 postal outlets, representing 2.8% of the entire postal network, and as of 2015 contribute to 0.12% of Kazpost's total revenue.

The model was easy to implement. The Postal Law of the Republic of Kazakhstan allows the Post to provide agency services. Moreover, Kazpost did not have to make significant investments in its network or in human resources. In fact, according to Kazpost, the major adjustment required was installing software to issue policies on behalf of various insurance companies, for control purposes. Insurance products are offered together with other financial products that are already part of the Post's product portfolio. Through these agreements, insurance companies gained access to part of the postal network and were able to reach out to new markets, including rural areas. The insurance companies did not have to make a significant investment in the postal infrastructure to offer their products.

Kazpost's case exemplifies how easy and mutually beneficial the agency partnership model can be for the Post and the

## Box 1

# Kazpost, Kazakhstan

insurance company. With little investment from both parties, the model can be put in place and generate profits. However, the rather timid commitment on both sides is reflected in the limited outcome of these collaborations. The revenues from insurance do not make a significant contribution to the Post's total revenue, and insurance companies cannot rely on the Post for strong and active sales. Added to that is the risk of intense competition inside postal outlets if the Post provides the same services for a number of insurance companies.

*Source: Kazpost*

product development stage, adapting an existing insurance product to the needs of its clients. The resulting products are branded or co-branded as postal insurance.

Sometimes, as part of the partnership, Posts can even expect to receive investments in IT and infrastructure from their partner companies. In some cases, postal staff receive training delivered by the partner company. On the other hand, a potential partner will push for an exclusivity condition as a way of safeguarding its investments and interests.

In choosing a partner insurance company, Posts may decide to take a step-by-step approach, as in the case of Poste Maroc. As described in Box 4, the Post first partnered with several insurance companies during a test period and then established an exclusive partnership with the most promising one.

Regarding revenue sharing, arrangements in the full-fledged partnership model tend to be similar to what we see in the agency partnership model – revenue is based on a per-transaction fee. However, profit-sharing schemes can be negotiated as well, with the potential to create even greater incentives for both parties to hold up their end of the partnership.

SONAPOST has been offering insurance to its clients since 2005. The Post currently offers insurance products for Allianz Burkina and Union des assurances de Burkina (UAB), issuing policies, collecting premiums and disbursing occasional claims through all 108 postal outlets of its network. In both cases, the insurance companies took the initiative to present the idea of contracting the Post to be their agent. SONAPOST saw in these agency services a possibility to diversify its sources of revenue.

Super Compte, introduced in 2005, is a life insurance product from Allianz Burkina that has a premium of 1,000 CFA francs and benefit of 50,000 CFA francs (payable to the beneficiaries of the insured person in case of death, or to the insured person in case of total and permanent disability).<sup>25</sup> Super Compte is linked to a postal savings account. As of 2014, 68,288 Super Compte insured individuals have used the Post to conduct their transactions. With regard to revenue, 35% of the premiums collected remain with the Post and the balance goes to Allianz Burkina.

Despite the significant number of individuals insured through Super Compte, according to SONAPOST, many clients are not satisfied with the product. Super Compte is based on a “pollicitation” regime, whereby the owner of the postal savings account is automatically subscribed to the insurance product and it is up to him/her to opt out of it. Some clients argue that they should not be subscribed without their prior authorization. According to SONAPOST, as the premium price is affordable, the Post thought that the postal savings account owner would accept the insurance product. The Post is trying to address this issue by providing more information to unsatisfied clients. However, Allianz Burkina does not get involved in dealing with clients, as the complaints are related to the method SONAPOST is using to offer the product, rather than the product itself.

In 2015, SONAPOST also started offering UAB’s life insurance product Postassurance, which comes in three different options of premiums, 2,905 CFA francs, 3,935 CFA francs and 4,455 CFA francs, with the respective assured sums of 100,000 CFA francs, 200,000 CFA francs and 250,000 CFA francs to be claimed. SONAPOST’s postal savings account owners can choose any of the premium options.

## Box 2

# SONAPOST, Burkina Faso

Postassurance has a slightly different revenue sharing ratio of premiums: 40% for SONAPOST and 60% for the insurance company, compared with the 35 to 65 ratio of Super Compte. It should be noted that the rather high fee received by the Post is due to the fact that in both cases, the insurance product is tied to an existing postal savings account, meaning that the insurance companies can tap into an existing pool of clients without much effort.

According to SONAPOST, the lack of knowledge about the benefits of insurance presents an obstacle to the wide acceptance of both products. An appropriate strategy to raise awareness among clients is still needed, particularly in an environment where talking about death remains taboo. In addition to the lack of awareness, the products might not be meeting clients’ needs. To address these issues, the Post needs to leverage its relationship with clients to adapt approaches and/or products.

Although the agency partnership business model allows the Post to diversify its sources of revenue without incurring significant extra operational costs, SONAPOST is facing a cultural obstacle that can only be overcome through awareness raising and tailoring its products to client needs. The Post acknowledges the challenge; however, its scope of action is rather limited, as it can neither make adjustments to the products nor count on insurance companies to raise awareness.

*Source: SONAPOST*

The Postal Corporation of Kenya (PCK) started providing a wide range of insurance products to its customers through its postal outlets right after the approval of the Postal Act in 1999.

PCK engaged in discussions with various insurance companies and became an agent for three: Genius Health Afya Kamili, Citadel Insurance and Pioneer Insurance. As part of the agreements with Genius Health Afya Kamili and Citadel Insurance, PCK was responsible for registering new clients on behalf of the insurance companies and also collecting the premiums. For Pioneer Insurance, PCK only facilitated payment of salaries to the company's employees.

The business model to be implemented was decided based on regulatory issues. PCK's mandate, as set out in the Postal Corporation of Kenya Act, does not contemplate insurance services. Therefore, PCK could only act as an agent for insurance companies.

PCK was contracted to provide payment platforms for the three insurance companies, initially offering their products in 44 postal outlets out of the 471 operated by PCK staff. The companies chose which outlets should be the first to offer their products. Therefore, the decision was solely based on the companies' needs.

Although the business looked promising in the beginning, the demand for PCK's agency services did not take off. Many customers visited the outlets to register, but they would use other methods to pay premiums – for instance, mobile

### Box 3

## Postal Corporation of Kenya

money – not going back to the outlets a second time, thus reducing the revenue for PCK.

Moreover, the insurance companies using the Post to prospect for new clients came up against certain obstacles. Genius Health Afya Kamili was not able to sustain medical cover for its clients and saw a significant drop in the number of policies. Citadel Insurance had recently introduced its insurance products into the Kenyan market; however, due to a very low uptake, the company decided to suspend operations until it found better ways of re-introducing its products.

In 2012, given the above and with no sign of any improvement, PCK stopped offering insurance services as an agent for the three companies.

*Source: PCK*



**FIGURE 5: Advantages and disadvantages for post offices and insurance companies in the agency partnership business model**

POST OFFICE	INSURANCE COMPANY
<b>ADVANTAGE</b>	<b>ADVANTAGE</b>
A postal regulatory framework allowing agents usually already exists	No significant investments required
No significant investments required	Access to new markets
Possibility of agreements with multiple insurers	Reduce high costs associated with premium collection and payment of occasional claims in remote areas
<b>DISADVANTAGES</b>	<b>DISADVANTAGES</b>
In general, insurance products do not come with the Post's brand	Competition inside the postal outlets, as the Post can offer insurance products from other insurers
No say on the quality of products and on the sales strategy	Postal staff's participation in the sales process is not proactive
Possible coordination issues with the insurance partner(s)	Capacity building of agents is required
Limited revenue if only certain functions are performed by the Post	Challenging to incentivize staff to promote insurance

Some Posts have explored other revenue-sharing mechanisms in their partnerships. Box 5 presents how ZamPost, from Zambia, partnered with an insurance company to deliver insurance to its clients as a loyalty premium. The aim was that, through the free provision of insurance to clients of ZamPost's Swiftcash money transfer product, the volume of transactions would increase, and the revenue generated as a result would more than compensate for the strategic investment. Although at first glance the plan sounded promising, the lack of investment in product awareness and consumer education threatened the success of the partnership. Offering free insurance did not result in the expected increase of Swiftcash use.

ZamPost's example highlights the importance of coordination for a successful partnership, especially in this model. For instance, who is responsible for raising awareness about the insurance? Who needs to clarify doubts or address complaints about the products? These are some of the issues that both sides need to clarify early in their collaboration.

Posts have been creative in thinking about the possibilities for their network. Bangladesh Post has leveraged its network of

postmasters through a new service whereby clients do not have to go to postal outlets to collect remittances; instead, postmasters go to the client's home or workplace to deliver the money sent. This new strategy was made possible through the introduction of the Postal Cash Card and the trust that postmasters enjoy within the community. Similar strategies could be used with postal insurance. Postmasters have the potential to be an effective sales force for insurance products.

As summarized in Figure 7, Posts and insurance companies that engage in full-fledged partnerships can expect to make more investments compared with the agency partnership approach, but the parties also have higher returns in this model. Coordination is an essential element of the full-fledged partnership model. Defining clear joint and individual roles for Posts and insurance companies is essential to the success of the partnership.<sup>26</sup>

<sup>25</sup> As of March 2016, 1 US dollar was worth approximately 590.52 CFA francs.

<sup>26</sup> It is worth mentioning that the partnership models presented in this study are not exhaustive and should not limit Posts in exploring other partnership possibilities. Joint ventures, for example, have become an option for partnerships between other distribution channels and insurance companies.

Rather than developing insurance products from scratch, Poste Maroc chose to partner with other institutions, thus benefiting from their expertise and building up its own. Poste Maroc successfully applied the partnership model to its insurance products through a step-by-step approach. For Poste Maroc, the full-fledged partnership model allowed it to meet the needs of its clients, helped strengthen customer loyalty and enhanced the potential of the postal network.

From 1999 to 2003, during the first phase of this approach, Poste Maroc partnered with three different insurance companies: Wafa Assurance, Isaaf Mondial Assistance and Alwatanya. This was considered a learning phase, and the products were made available in just 200 agencies. During this phase, Poste Maroc deepened its understanding of its clients' needs. The findings and recommendations of a study conducted in 2004 led Poste Maroc to establish a partnership with a sole insurance provider.

In 2005, Poste Maroc started offering insurance in exclusive partnership with Wafa Assurance.<sup>27</sup> The company is one of the market leaders in Morocco with operations also in Tunisia, and it plans to expand to the Sub-Saharan region.

The collaboration entails several spheres of responsibility for both parties, and Poste Maroc and Wafa Assurance work together in many areas. With regard to product design and development, the process receives input from both partners. Marketing and communication strategies are also developed jointly. Although Poste Maroc is solely responsible for sales, including piloting commercial activities and setting up sales targets, the insurance company visits the postal agencies to assist with any difficulty that the sales team might encounter. For instance, through its visits, Wafa Assurance can easily detect whether postal staff are comfortable with explaining insurance products and provide training if necessary.

#### Box 4

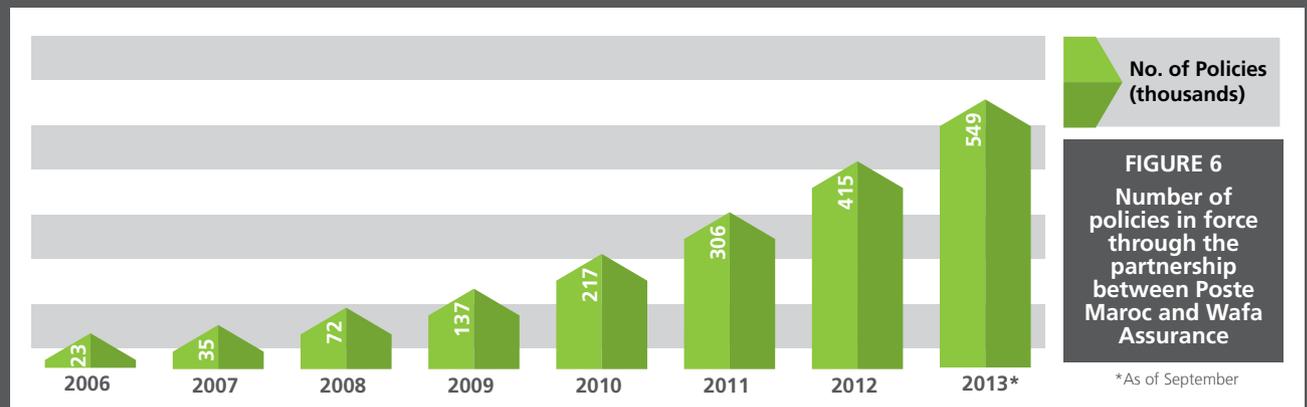
## Poste Maroc (Al Barid Bank)

According to Wafa Assurance, one of the success factors of the partnership is the ongoing feedback between the parties.

The case of Poste Maroc entering the insurance market goes hand-in-hand with the creation of Al Barid Bank (ABB), the Moroccan postal bank. Poste Maroc received authorization from the Ministry of Finance to establish a full-fledged bank, and in June 2010 ABB was officially launched with a clear mandate to advance financial inclusion in Morocco. Right after its creation, ABB put in place a series of measures aimed at strengthening its capacity. One of those measures was the establishment of University Barid Al Maghrib to tackle the problem of weak human resources, which has helped improve the financial service skills of postal staff.

Source: *Poste Maroc and Wafa Assurance*

<sup>27</sup> Details on the current insurance products can be found on Al Barid Bank's web-site: [www.albaridbank.ma](http://www.albaridbank.ma).



Zambia Postal Services Corporation, ZamPost, looked at insurance as an alternative strategy to promote other postal products, rather than a product to have in its portfolio on its own. Looking for strategies to increase revenue and stand out from competition in the Zambian money transfer market, ZamPost established a partnership with Professional Life Assurance to add value to its Swiftcash money transfer service. Through the partnership, ZamPost would offer Swiftcash clients Professional Life's Bantubonse, a term life insurance product, as a loyalty incentive and would pay the premiums.

For ZamPost, adding value to the Swiftcash service was supposed to result in a higher volume of transactions, as Professional Life's insurance product was redesigned to give an incentive to Swiftcash clients to use the service more often. Clients with a total volume of transfer transactions below 165 US dollars would be offered free life insurance with a benefit of 125 US dollars. For those with transfer transactions above 165 US dollars, the benefit would be 250 US dollars.

Moreover, the partnership could solve the insurance company's problem with its distribution model. Professional Life launched Bantubonse in 2012, with a premium of 5 US dollars and payout of 165 US dollars. After one year, distributing solely through individual agents, there were only 403 policies in force, a clear sign that agents were not able to give scale to the product. With the partnership, Bantubonse policies grew from 403 to 224,483 by 2013 – and the Post was responsible for 99% of that growth.

Both parties had important roles and responsibilities in the partnership. ZamPost had to pay the premiums, report claims and regularly provide Professional Life with data on insured clients. Professional Life had to conduct refresher training for postal staff, process claims and advertise the product.

However, although the partnership seemed to be working well, only Professional Life was satisfied with the results of the arrangement. As Swiftcash clients were not fully aware of the insurance, the incentive mechanism did not work as planned, and the Post did not see the volume of its money transfer transactions increasing. Measures were put in place to boost growth in the volume of transactions, such as product awareness campaigns and consumer education, but these measures were limited owing to budget constraints.

## Box 5

# ZamPost Zambia

After one year of partnership, ZamPost decided to pull out on the ground that Bantubonse was not adding value to its Swiftcash services. It was clear that the insurance product was not fulfilling its role because no claims were reported during the duration of the partnership.

Although ZamPost's strategy to increase revenue from its money transfer services was very creative and promising, the lack of awareness of ZamPost's clients about the free insurance prevented the Post from achieving its objective.

*Source: Lemmy Manje, microinsurance consultant*

**Figure 7: Advantages and disadvantages for post offices and insurance companies in the full-fledged partnership business model**

POST OFFICE	INSURANCE COMPANY
<b>ADVANTAGE</b>	<b>ADVANTAGE</b>
A postal regulatory framework allowing Posts to be agents usually already exists	Access to new markets
Insurance products come with the Post's brand	Reduce high costs associated with premium collection and payment of occasional claims in remote areas
Higher chance of investment in the postal network by the partner company, including training of postal staff	No competition inside the postal outlets because of the exclusivity condition agreed with the Post
Active role and say on the quality of products and the sales strategy	
<b>DISADVANTAGES</b>	<b>DISADVANTAGES</b>
Insurers might try to push for an exclusivity condition in the partnership (which can be an advantage, as an exclusivity agreement eliminates the risk that clients will become overwhelmed with too many options)	Potential need for investments in the postal network, including training of postal staff
Significant financial and human resources required	Need for greater coordination between partners
Potential reputation risk as the post brand will be used	

## Own insurance model

Unlike the two previous models, the own insurance model does not need an insurance company's involvement in the operation. The Post is solely responsible for all aspects of the insurance offering. The Post should have – or have a plan to acquire – high levels of insurance expertise and the necessary IT infrastructure to handle such a venture.

Usually Posts that make this choice have experience working with financial services. Japan Post is one of the largest insurers in the world, with more than 38 million insurance policies.<sup>28</sup> Japan Post's history with insurance goes back to the foundation of the Postal Life Insurance business in 1916 by the Ministry of Communications.<sup>29</sup> However, the Japanese postal savings system was established even earlier, in 1874.<sup>30</sup>

In terms of the regulatory framework, the Post will need

regulatory approval to operate in this field. Nevertheless, India Post, for example, did not need a licence from the Ministry of Finance or from a specific insurance regulator, as the national postal regulatory framework allows the Post to offer insurance. India Post's experience is further discussed in Box 6. Although this might also be possible in other countries, it is recommended that insurance authorities regulate all insurance operations, including postal insurance.<sup>31</sup>

<sup>28</sup> Japan Post Insurance sells individual insurance policies and also postal life insurance and annuity policies from the Management Organization for Postal Savings and Postal Life Insurance in the form of reinsurance (Japan Post Insurance Annual Report 2014).

<sup>29</sup> Japan Post Insurance website: [www.jp-life.japanpost.jp/en/aboutus/company/en\\_abt\\_cmp\\_history.html](http://www.jp-life.japanpost.jp/en/aboutus/company/en_abt_cmp_history.html).

<sup>30</sup> Scher, 2001, "Postal Savings and the Provision of Financial Services: Policy Issues and Asian Experiences in the Use of the Postal Infrastructure for Savings Mobilization", DESA Discussion Paper No. 22.

<sup>31</sup> IAIS, 2012, "Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets"

India Post has been offering insurance products since 1884. Although it does not have a specific licence from the insurance regulator, the Post provides insurance for its clientele under the Postal Act. Currently, India Post has two basic schemes: Postal Life Insurance (PLI) and Rural Postal Life Insurance (RPLI).

PLI was introduced in February 1884 and was initially intended only for postal employees. Drawing on the experience with its own staff, India Post extended its insurance products to employees of other public and semi-public institutions. The number of policies under the PLI scheme has grown significantly over the years, to over 6.4 million policies as of March 2015, benefiting employees from various public and semi-public institutions as well as their families.

In 1994, the Official Committee for Reforms in the Insurance Sector<sup>32</sup> observed that only 22% of the insurable population in India was insured and recommended that India Post be allowed to offer insurance products in the rural market. For the committee, the Post's position of trust in the community and its vast network would be key in expanding insurance coverage and awareness among the rural population. The government accepted the committee's recommendation, and in 1995 India Post introduced RPLI with the main objective of providing insurance products to the rural public. As of March 2015, RPLI had more than 23.51 million policies under its scheme.

Besides the lack of insurance company presence in rural areas, the success of RPLI can be attributed to the steps taken to strengthen the sales force, combined with the creation of

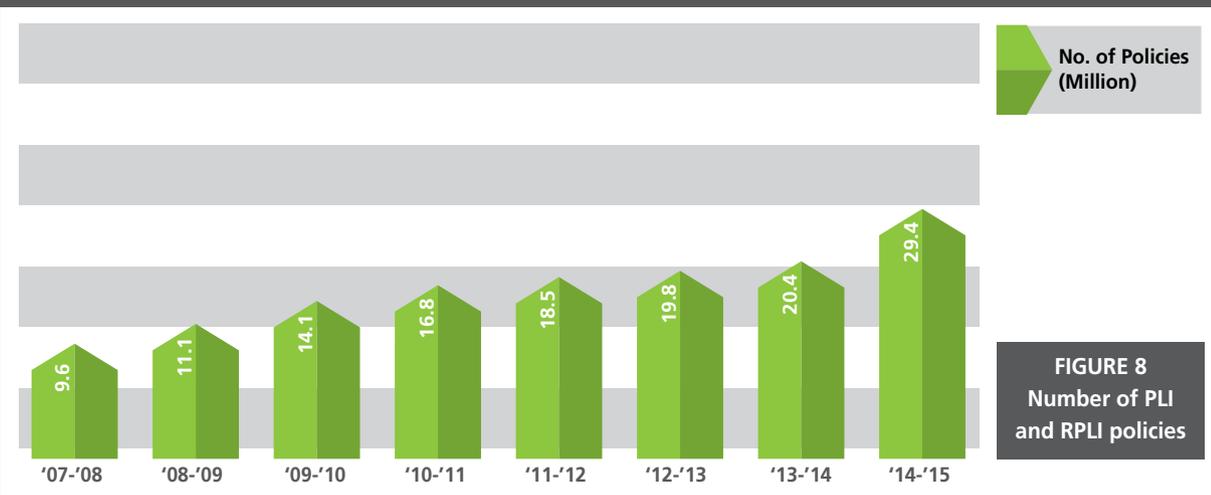
## Box 6

# India Post

innovative channels for customer interaction. The Post hired unemployed youth and self-help group members as direct agents for RPLI, providing them with an opportunity for additional income. As well, RPLI staff received training to sharpen their marketing skills.

To improve the communication channels with customers, the Post developed web and mobile portals, as well as a call centre to handle services. Moreover, 809 central processing centres were set up in the country's head post offices to handle insurance proposals, services requests and claims.<sup>33</sup>

Source: India Post



The decision to implement the own insurance business model should be carefully considered, as many more requirements and risks are involved than with the previous models. On the other hand, through this model, the Post can play a central role in advancing financial inclusion and reaching out to individuals who otherwise would not have the opportunity to access affordable insurance products.

<b>FIGURE 9</b> <b>Advantages and disadvantages for post offices in the own insurance business model</b>	
<b>POST OFFICE</b>	
<b>ADVANTAGE</b>	
Total autonomy to design and develop products	
Insurance products come with the Post's brand	
No need to share revenues	
<b>DISADVANTAGES</b>	
Special regulatory framework allowing Posts to offer their own insurance products is needed	
Insurance licences might take a long time to be granted	
High level of expertise in finance required, particularly in insurance	
Significant investments in IT infrastructure needed	
No partner to share the risks involved in the business	

Posts with a long tradition of offering financial services and a regulatory framework allowing for postal insurance can consider exploring the own insurance business model. The decision needs to be taken carefully, as the model requires high levels of expertise and investment, and there is no partner to share the risks. On the other hand, Posts that have successfully implemented this model have become major players in their markets and contributed significantly to expanding financial inclusion in their countries.



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<sup>32</sup> Also known as the Malhotra Committee.

<sup>33</sup> Press Information Bureau, Government of India – Ministry of Communications and Information Technology, <http://pib.nic.in/newsite/PrintRelease.aspx?relid=101736>.

## Recommendations for postal operators

As we have seen, postal insurance can be a viable option for post offices looking to advance financial inclusion, diversify their sources of revenue and, in some cases, enlarge their portfolio of financial services.

### Why should Posts offer insurance products?

Insurance products can nicely complement a Post's portfolio. Through postal insurance, Posts can diversify their sources of revenue, and postal financial services have already proved to be a profitable business. The offer of insurance products fits Posts' financial inclusion mission, and for Posts that already offer

financial services, insurance is a nice fit and allows them to become a one-stop-shop for all financial needs of their clients.

Further, Posts possess or can develop characteristics that have the potential to transform postal networks into well-suited providers of insurance. These are:

- › Client understanding
- › Product diversification
- › National outreach
- › Rural advantage
- › Trust with clients

### What kind of insurance products?

As seen through the various case studies, life and disability insurance are the most common insurance products offered by Posts. These products are usually the easiest for people to understand, and thus the easiest to sell. However, Posts could also explore other personal product lines, such as auto insurance and simple health coverage like hospital cash. The more advice and customizing the products require, the more special skills the agent will need.



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## What kind of business model should be adopted?

As described above, there are three main potential business models for postal insurance:

- **Agency partnership** – The Post collects premiums, disburses claims/benefit payouts and issues policies on behalf of one or more insurance companies.
- **Full-fledged partnership** – The Post offers insurance products in partnership with an insurance company and assumes more responsibility in all stages of the operation, including potentially product development.
- **Own insurance** – The Post offers its own insurance products.

These models should be adapted to each context, taking into account local characteristics, such as legal and regulatory frameworks, the Post's levels of IT infrastructure and expertise on insurance, and local insurance market characteristics, to name just a few.

The three models together can be seen as a ladder where each model-step requires more investment, responsibility and commitment.

Posts looking to start offering insurance to their clients should aim at the first and second models – the agency and full-fledged partnership models – as the third model, the own insurance model, does not involve any insurance company and requires a high level of expertise in insurance and large investments. Furthermore, to implement the third model, Posts need special regulation, unlike with the first two models.

## Agency or full-fledged partnership?

These two business models are suited to Posts entering the insurance market. In both cases, the Post will rely on the insurance company's expertise and activities; however, the Post's involvement in the operation will vary significantly.

Posts really wanting to make insurance an important part of their portfolio would be better off with the full-fledged partnership model. In partnership with insurance companies, Posts will have the opportunity to be involved in different parts of the business and learn from insurance companies. In this model, Posts play an essential role in the marketing, sales and claim processes, and can even receive training from their insurance partners. Posts can also participate in the product development stage, making sure that the branded or co-branded postal insurance products will meet their clients' needs. This participation is uncommon in the agency partnership model. However, as we have seen, the full-fledged partnership model also requires more commitment and investment from the Post, something that has to be carefully considered and planned from the start.

When implementing the full-fledged partnership model, Posts should pay particular attention to certain issues that are vital to the success of the partnership. In particular, Posts should:

- be proactive and market-oriented in their search for business opportunities;
- select a reputable partner in the insurance market that is strongly committed to understanding the final consumer and to supporting distribution by its postal partner;
- carefully design an agreement that covers all aspects of the operation;
- clearly define and agree on the joint and individual roles and responsibilities of each party;
- ensure that responsibilities assigned play to the key strengths of each partner;
- be familiar with their insurance partner's business model;
- ensure that both sides have real incentives to make the partnership work.

# Recommendations for insurance companies

Some insurance companies have already been working with post offices to deliver their products. Some experiences have been very successful, but others have faced obstacles that prevented the insurance companies and Posts from achieving their mutual goals. In some cases, the challenges arise from a mismatch between the business model chosen and the parties' characteristics and expectations. Therefore, insurance companies should consider working with Posts, but perhaps more importantly, they should understand how to engage with Posts effectively.

## Can the Post be a good distribution channel?

Posts present characteristics that enable them to be good partners in delivering insurance products, such as scale, infrastructure, brand and trust within the community, along with their willingness to diversify their products and to prioritize financial services, insurance in particular. Moreover, insurance companies stand to benefit from some of Posts' other strengths, for instance, client understanding. Over the years, Posts have built a strong relationship with their clientele through different services. With investments in automated tools, Posts could capitalize on these relationships to get first-hand feedback from potential final users of insurers' products.

In both business models, insurance companies can benefit from the collaboration with Posts. In the agency partnership model, companies can expect access to new markets with very modest

investment. Posts can be a viable alternative to reduce the high costs associated with collecting premiums, paying claims and issuing new policies. However, significant growth in the number of insurance policies cannot be expected without active marketing and sales, particularly when targeting a clientele that is unfamiliar with insurance.

With the full-fledged partnership model, besides access to new markets, insurance companies can usually rely on Posts' input in the development stage of products and in sales activities, resulting in a more motivated and proactive postal staff willing to promote the insurer's products.

Whether considering the agency partnership model or the full-fledged partnership model, insurance companies should carefully analyze the Post's potential for business, including the following aspects:

- › Network, including capillarity, connectivity and how much of the network will be used to distribute insurance products;
- › Staff skills, motivation and workload;
- › An existing dedicated and mobile sales force, or the potential for forming one;
- › Financial capacity;
- › Automation and process integration;
- › Legal and regulatory framework;
- › Flexibility, including opening hours and adaptation to client needs.

## The Post or some other distribution channel?

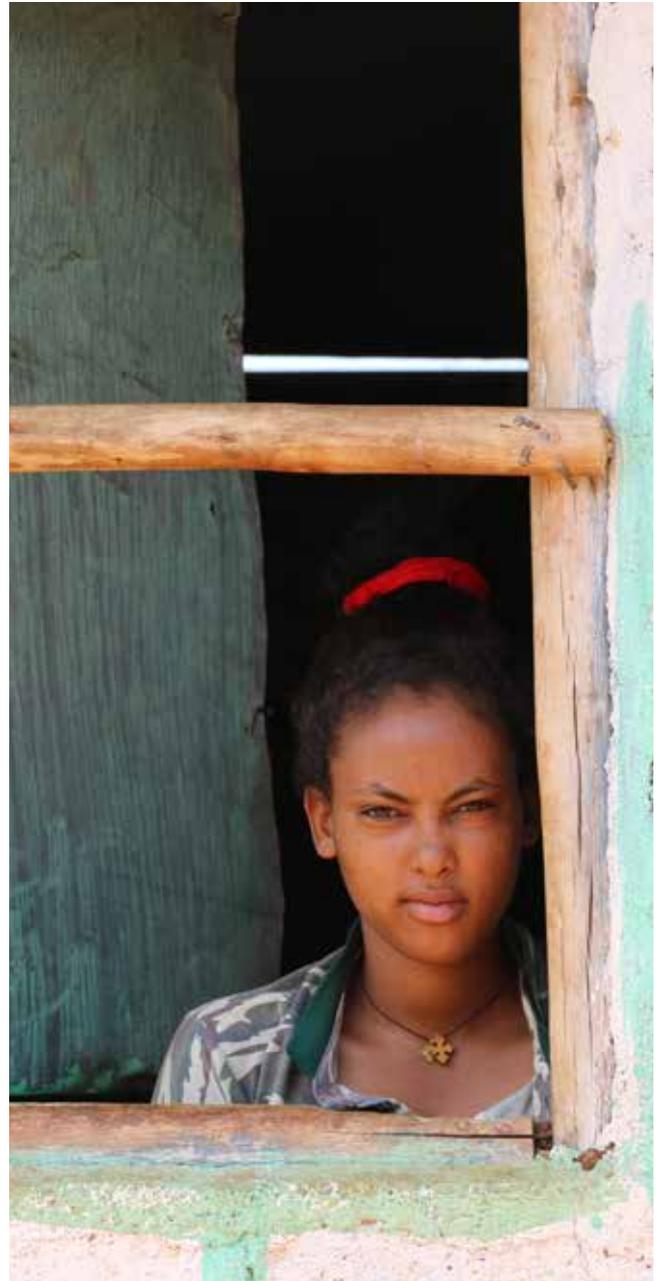
Posts can be a good delivery partner option for insurance companies. Compared with other potential distribution channels for insurance companies, such as financial institutions, community-based organizations, retailers and mobile network operators (MNOs), Posts have their advantages and disadvantages. Figure 10 summarizes the main characteristics of the various distribution channels.

FIGURE 10

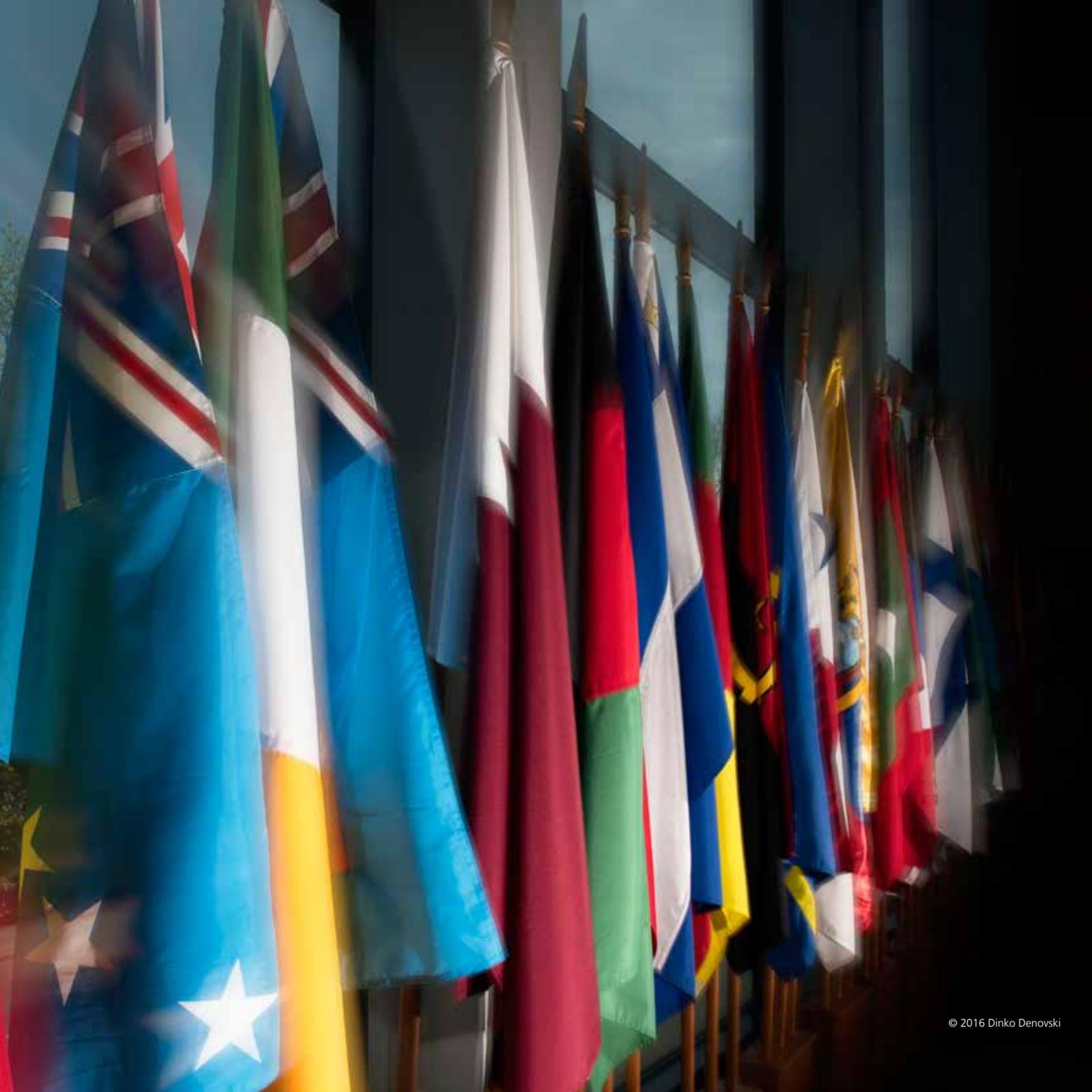
### Characteristics of post offices and other distribution channels

	Post offices	Financial institutions	Community-based	Retailers	MNOs	Direct sales
Is the channel able to improve clients' understanding and give advice?			▬			▬
Is the channel open to offering a wider range of products?	▬	▬	▬			▬
Does the channel have access to a large number of potential customers?	▬	▬		▬	▬	
Does the channel have a popular brand? Is it trusted within a community?	▬		▬	▬	▬	
Does insurance matter to the channel? Is it willing to prioritize it?	▬		▬			▬
Does the channel offer a long-term partnership?	▬					▬

Source: Based on Hoffarth, Merry & Prashad, 2014, "Microinsurance Distribution Channels", ILO Impact Insurance Paper No. 33



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## Recommendations for policymakers



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Many postal networks around the world are evolving from mail-centred bureaucracies to more diversified commercial enterprises with a clear mandate to expand financial inclusion. In countries like India, Morocco, Azerbaijan, Kazakhstan, South Africa and Brazil, to name a few, governments are using Posts to provide financial services to individuals.<sup>34</sup>

Post offices are powerful tools to expand financial inclusion and have already proved to have comparative advantages in remote areas and with particular vulnerable groups – the poor, less educated and those in the informal economy – compared with other financial services providers.<sup>35</sup> An estimated 1.5 billion individuals worldwide are already users of postal financial services.<sup>36</sup>

### Creating enabling environments for postal insurance

In spite of a long tradition of providing insurance – dating back to 1884, when India Post introduced its first insurance scheme – less than one third of the Posts in developing countries that provide financial services offer insurance.

Policymakers need to create regulatory environments that make it possible for Posts to offer insurance products. As we have seen, the agency and full-fledged partnership business models only require Posts to be allowed to provide agency services. These business models have already proved effective for postal insurance, in turn contributing to financial inclusion.

With respect to the own insurance model, it is worth highlighting that although some postal regulatory frameworks allow Posts to offer their own insurance (i.e. underwriting the insurance themselves), it is recommended that insurance authorities regulate all insurance operations, including postal insurance.<sup>37</sup>

<sup>34</sup> Berthaud & Davico, 2013, "Global Panorama on Postal Financial Inclusion: Business Models and Key Issues", Universal Postal Union.

<sup>35</sup> Ansón, Berthaud, Klapper & Singer, 2013, "Financial Inclusion and the Role of the Post Office", World Bank, Policy Research Working Paper 6630.

<sup>36</sup> Ansón & Toledano, 2010, "Between Financial Inclusion and Postal Banking: Is the Survival of Posts Also There?", Universal Postal Union.

<sup>37</sup> IAIS, 2012, "Application Paper on Regulation and Supervision Supporting Inclusive Insurance Markets".



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