

Global Panorama on Postal Financial Inclusion: Business Models and Key Issues





Global Panorama on Postal Financial Inclusion: Key Issues and Business Models

Alexandre Berthaud
Gisela Davico

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Universal Postal Union
Postal Financial Inclusion Project
P.O.Box 312
3000 BERNE 15
SWITZERLAND

Tel: +41 31 350 36 23

Fax: +41 31 351 31 11

Email: alexandre.berthaud@upu.int

www.upu.int

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The views expressed in this paper reflect the views of the authors alone, and do not necessarily reflect those of the Universal Postal Union or its development partners.

Universal Postal Union

Established in 1874, the Universal Postal Union (UPU), with its headquarters in the Swiss capital Berne, is the second oldest international organization in the world and a United Nations specialized agency. With its 192 member countries, the UPU is the primary forum for cooperation between postal sector players. It helps to ensure a truly universal postal network of up-to-date products and services.

The organization fulfills an advisory, mediating and liaison role, and provides technical assistance where needed. It sets the rules for international mail exchanges and makes recommendations to stimulate growth in mail, parcel and financial services volumes and improve quality of service for customers.

In recent years, governments have made it a priority to develop effective tools to financially include their populations in both developing and industrialized economies. At the same time, postal operators are seeking new ways to remain financially viable in the face of stagnating letter-post volumes, their core business. In this context, the UPU and the postal sector in general have started to pay particular attention to the role of postal networks in financial inclusion. More and more member countries in the developing world and their postal operators are requesting assistance on how to deploy financial services through the post for the general population, and in particular rural inhabitants and the unbanked.

Given its strategic position as the umbrella organization representing the global postal sector, the UPU, with its worldwide reach, has decided to become a knowledge center in this field. Through the work of its postal financial inclusion program, the UPU provides technical assistance to its member countries in develop-

ing their postal financial inclusion strategies. This program was launched by the International Bureau during the 2009-2012 work cycle. It was then strengthened through a grant received from the Bill & Melinda Gates Foundation in 2011. By promoting financial inclusion through postal networks, the UPU helps governments attain their national financial inclusion goals and is doing its share to reach the UN Millennium Goals, in particular Goal 1, which is to eradicate extreme poverty and hunger.

The UPU's Doha Congress in 2012 highlighted the importance for the postal sector to focus on inclusive financial services, especially in the developing world. This UPU report establishes a global panorama of the current state of postal financial inclusion. Based on the results of a questionnaire answered by 123 UPU member countries and the concrete lessons drawn from field missions, for the very first time the report highlights the main business models used by Posts worldwide to offer inclusive financial services and presents the key factors that can contribute to a postal operator's success in this field. Building on those success factors, the study features an index indicating a postal operator's capacity to become a lever for financial inclusion. It also ranks the countries accordingly. The ranking can become a formidable tool for decision making and for posts and governments to benchmark themselves against others in the region and in the world.

This report fills a knowledge gap in time for governments and postal operators to seize financial-inclusion opportunities in the years to come and could become an important tool in solving financial-exclusion issues.

Foreword



Her Royal Highness Princess Máxima
of the Netherlands
The United Nations Secretary-General's Special
Advocate for Inclusive Finance for Development

Global Panorama on Postal Financial Inclusion:
Business Models and Key Issues
Universal Postal Union

As UN Special Advocate, I am especially pleased that the Universal Postal Union is so actively exploring how postal systems can contribute to financial and social inclusion. Post offices have been an integral part of the infrastructure in many countries, contributing to the prosperity of communities through reliable communications. Inclusive financial systems are also an important part of a given country's infrastructure. They enable and accelerate economic growth and social development by helping people and businesses generate income, create jobs and protect themselves from unforeseen risks—and achieve their full potential.

Why Financial Inclusion Matters

The challenge is that today 2.5 billion adults—more than a third of the world's population—are not part of the formal financial sector. This is most acute among low-income populations and in emerging and developing economies; globally, about 75% of the world's poor are excluded¹. And about 200 million small and medium-sized enterprises (SMEs) in emerging markets lack adequate financing. As a result, people juggle costly and inefficient informal financial mechanisms in order to make sure they have cash when they need it—whether it be to buy equipment to expand a bakery or machine shop, to pay the children's doctor's fees and school tuition, or to provide daily necessities such as food. Or, they just do without. For business owners, this means cutting back on growth and productivity potential.

Financial services can make a big difference. They reduce and even remove the many fees and hidden costs of using informal financial products, including by

reducing the time spent juggling cash, informal loans and other products. For a poor family, even several percent of its total income can be the difference between more schooling for the children, more nutritious food, or basic health care. And for business owners and farmers, lines of credit, long-term finance at affordable rates and reliable payment methods can quickly contribute to higher profit margins and to capital investments in capital equipment, inventory and other inputs to grow the business. This is especially the case when financial products are designed to help clients achieve specific needs. For example, savings, insurance and loans with the right features can each help boost agricultural productivity and rural incomes. Research among farmers in Malawi has shown how improved savings options, including commitment savings accounts in which clients restrict access to their own funds until a future date of their choosing and often for a specific use, led to much greater savings and subsequently greater investments in farm inputs like seeds and fertilizer and higher harvest proceeds². In India, crop insurance is helping farmers shift to riskier but more profitable crops, and to invest more in them. And pilot projects in Africa suggest that having crop insurance increases farmer's access to formal loans as it reduces the risks. It also can reduce the cost of finance.

It is unlikely that a single type of institution can provide all the financial products that poor people and small enterprises need. Good products require understanding of local needs, context and markets. Different products also present different risks and delivery challenges. Addressing these also requires specific knowledge, and often partnerships among different institutions. So, because we want diverse financial products, we will then most likely have diverse providers of financial products for individuals and SMEs.

The Ecosystem to Realize Financial Inclusion

Global discourse has evolved in recent years from "microcredit" to "microfinance," and now to "financial inclusion" in recognition of this situation. With this evolution, we are seeing more attention to the broader enabling environment that fosters financial inclusion, and to the resulting impact on lives, welfare and development.

One of the most important roles for government is to create the connected ecosystem that encourages a vibrant financial services market, with diverse and responsible providers. This involves infrastructure, regulation and supervision, as well as efficiency, competition and consumer protection. It also involves promoting continued innovation to reach excluded households and enterprises with financial products that are needed, useful and affordable. Communications technology is at

¹ Global Findex Database 2012, The World Bank Group

² Kendall, Jake, *Giving Farmers in Malawi a Better Way to Saving Their Harvest Proceeds*, Bill & Melinda Gates Foundation publication, November 2010.

the forefront of so much innovation. Mobile phones are transforming how we do business, interact with social networks, share information and solve urgent problems. They are also changing how we pay for things and how we bank. In particular, mobile phones are drastically lowering costs and increasing access, as they make it possible to deliver sustainable financial services in the places where poor people live and work. Leveraging these and other innovations, however, requires partnership and coordination across many sectors—from communications ministries to central banks, mobile phone companies to social welfare agencies, commercial banks to retail stores. The leadership of communications ministries and their active coordination across government and with the financial sector is thus so welcome and so very important. And we are seeing great examples from diverse countries including Brazil, Kenya, India, the Philippines and Tanzania, which are among a growing number of countries committed to putting financial inclusion to the service of the poor.

The Role of Postal Networks in Financial Inclusion

Postal networks have much to offer for financial inclusion. Around the world, there are exciting examples where the post has built on its presence to provide financial services. Post offices frequently offer remittances, money transfers and bill payments. Some provide savings accounts or even full banking services. And at least one postal network offers a mobile wallet. Posts can also figure in government plans to switch salary, welfare and other payments from cash to electronic delivery, bringing efficiency, cost savings and transparency. In these scenarios, there are good examples where posts are using their nation-wide infrastructure to maximum advantage, for example through business models that rely on low-fees and high-volumes. Posts can also offer access and affordability, including because the criteria to open and maintain a post account are typically less than for a normal bank account. And in many places, post offices are already at the center of community life.

All these factors can enable and encourage poor people to use formal financial services, and can make a huge impact on lives and livelihoods. As a result, an estimated 1 billion people in more than 50 countries are banked through postal systems, according to the Universal Postal Union.

Where post offices are strong this is very positive. It is incumbent on postal network executives, policy makers, financial service providers and donors, however, to be realistic about the role and business approach of a particular post office to provide financial services. For example, client trust is crucial in financial services. In the case of the post, trust is influenced by the post's core functions, including mail and package delivery. If this is lacking, it will be hard for clients to trust the post with their money. Moreover, when it comes to financial institutions and products, we have unfortunately seen

examples of what can happen without proper management and supervision. Or when credit is promoted too heavily or at exorbitant rates. So, in all aspects, a postal bank must be responsible, sustainable and independent. This also extends to how deposits are used and reinvested. Examples, including those in this Panorama, of postal networks that create legally independent and regulated financial service entities are thus very welcome. And they are very important to inform best practices and sustainable business models.

This scenario of a postal bank is not going to be right for all posts in all countries, however. In some instances, serving as a retail partner for financial service institutions and mobile phone companies may make more sense. With the rise of digital communications and lost revenue from mail, posts all over the world are finding it challenging to maintain extensive infrastructure and staff. Many posts are developing additional products and service streams. Partnering with financial service institutions provides potential revenue through agent banking or hall rental fees, while recognizing the comparative advantage of the post. It avoids some big challenges like regulation, management capacity, and separating operations, and allows the post to concentrate on its strengths, while partners bring financial expertise and responsibility. It can also promote competition in the financial sector. And competition, we know, drives innovation and lowers prices, which is good for clients, businesses and the market overall. It is, however, up to the postal networks to become the partners of choice for financial service and mobile money operators. This could be transformative in many countries.

Financial Services for Social Outcomes

Financial inclusion is not only about providing financial services, but equally about the resulting impact on lives, welfare and development. One of the most exciting conversations I have when I visit clients, families, store owners, policy makers and national leaders is what they have been able to achieve with access to a bank account, loan or insurance product, and how financial services are being effectively twinned with needs-related social and development services. Today, postal networks have the potential to work even better for the poor by doing so. And there are exciting examples to follow. In Botswana, the Kitsong communication centers provide access to government forms and agricultural information. Other countries use posts to send school equipment. Brazil has even used them to raise awareness on HIV/AIDS.

How can we build on this? Perhaps this will mean partnering with pharmacies to deliver medicines. Working with social welfare and health ministries to deliver conditional cash transfers. Or with agricultural companies to send a farmer's crop directly to the buyer. The payment could be deposited directly into a savings account. The next season, this account could be automatically debited and the post delivers new seeds

and fertilizer. The opportunities are endless and I hope that posts will work with social sector ministries, private company innovators and others to develop them. The Universal Postal Union can play a big facilitation role, for example by collaborating with other UN agencies and their government counterparts in specific countries to identify if there is an appropriate partnership role for the postal network to deliver financial services that advance specific development goals. There is really no limit to what can be achieved.

Sharing Knowledge

There is such exciting progress and even more potential to make financial inclusion a reality. None of this will happen overnight, or without concerted effort, leadership and support. For these reasons, I encourage the Universal Postal Union and other partners to give their attention especially to countries where there are commitments to financial inclusion or coordination processes already in place. This includes those countries that committed to create national strategies and coordination platforms as part of the G20 Financial Inclusion Peer Learning Program, those where financial regulators have

set specific targets and immediate actions to advance financial inclusion as part of the Maya Declaration, and those countries that pledged to move government payments to electronic means as part of the new Better than Cash Alliance, among others.

In all these efforts, it is equally valuable to consider what has worked and also what has not worked, how successes can be taken to scale sustainably, and how experiences can be adapted to different local contexts. To this end, this Panorama and the related work of the Universal Postal Union is so valuable to help advance the financial inclusion agenda. I extend my congratulations to the Universal Postal Union for this very good effort. I hope this publication will serve as the basis for many conversations on business models, partnership approaches, diverse financial products, and appropriate regulation for inclusive financial services provided by post offices—and other institutions. And, I hope that the Panorama will spark even more and continued efforts to share lessons learned and best practices to bring financial services to anyone who needs them and for the benefit of many.

Executive summary

Although for the general public – and even for practitioners – Posts may seem an unlikely champion in the fight against financial exclusion, judging from recent developments the Post appears to be a key lever in advancing financial inclusion. In reality, many Posts are leading, or have recently gone through, a major transformation process, from mail-centred bureaucracies to diversified modern commercial enterprises with a social mission to serve the whole population.

Postal financial inclusion is the process whereby people excluded from the formal financial sector find a way into the financial system, using the postal network as a gateway. In other terms, postal financial inclusion is the provision of financial services for the unbanked through postal operators. Postal financial inclusion does not necessarily mean that the Post offers its own financial services to the unbanked; it can also mean that the unbanked can access those services at the post office through a partnership with a financial institution.

This report establishes a panorama of postal financial inclusion and presents the real status of this dimension in financial inclusion, which has not been extensively studied before. Based on a questionnaire answered by 123 UPU member countries and the concrete lessons drawn from the field missions, the report seeks to bridge both the information and awareness gaps on the role of Posts in financial inclusion by providing updated and previously unpublished statistical information on postal operators. It hopes to raise awareness among decision makers and development partners alike, and open the way for postal financial inclusion to develop still further and be one of the key tools in solving the financial exclusion issue.

After banks, postal operators and their postal financial subsidiaries are the second biggest worldwide contributor to financial inclusion, far ahead of microfinance institutions, money-transfer organizations, cooperatives, insurance companies, mobile money operators and all other providers of financial services. In 2010, 51 postal operators held 1.6 billion savings and deposit accounts. If we take a conservative position, and assume that an average postal client has 1.5 accounts, this means there are more than 1 billion people banked through the Post. Although, it is important to highlight that a significant proportion of these may be dormant, as is also the case in the commercial banking sector.

Only 6.5% of postal operators in the sample do not offer financial services. Most of the services are transactional, and the most common products offered are domestic remittances, bill collection, international

remittances, and government payments. Several hundred million people, often without an account, use the Post to make and receive basic payment transactions.

The Post is the largest network of contact points in the world, with 662,000 contact points in 2011³, but is underused for financial inclusion since not all post offices offer the full range of financial services. In comparison, the IMF statistics on financial access for 2010 show a total of 523,000 bank branches and ATMs worldwide⁴.

There are five main business models (BMs) used by postal operators to participate in financial inclusion: BM 1 – Cash merchant for government and financial services providers (present in 83% of countries); BM 2 – Proprietary transactional financial services (present in 63% of countries); BM 3 – Partnership with a financial service provider (present in 24% of countries); BM 4 – Unlicensed postal financial services (present in 24% of countries), and BM 5 – Licensed postal financial services (present in 9% of countries). An additional business model, which is referred to as BM 0, given the total lack of involvement of the Post, is when the postal operator rents some space to a financial service provider to sell its services. Countries can adopt one or more business models. A detailed description of business models is provided in the document.

The data analysis confirms existing trade-offs between contribution to financial inclusion and investment and between sustainability and ease of implementation, depending on the business model used. Data shows that Posts in the higher business models offering their own savings, insurance or loan services (unlicensed or licensed) have a higher share of income coming from postal financial services than those in the partnership model or transactional models such as BM 1 and BM 2. The trade-off theory determines that the first types of business models (cash merchant and proprietary transactional services) are the easiest to implement and those that require the least investment, but seem to deliver a lower contribution in terms of financial inclusion and long-term sustainability of the Post. This of course depends on local context. In some instances these models can be the most suitable. Meanwhile, the models where the Post is more closely involved and offers a wider range of products, such as BM 3 (partnership), BM 4 (unlicensed financial services) and BM 5 (postal bank), translate into a higher contribution to financial inclusion as is being confirmed by on-going data analysis performed in collaboration with

³ Helble M., *Postal Statistics 2011*, UPU, 2012

⁴ *Financial Access Survey*, International Monetary Fund, 2010. <http://fas.imf.org/>

the World Bank Findex team, but require heavy investments and are hard to implement. This can be taken as a roadmap for postal operators to decide on which business model it is best to adopt for their diversification strategy depending on their local conditions.

There are 10 common factors that have been proven to lead to success, but can become challenges for Posts, particularly in developing countries. The factors to be considered when analyzing the postal operator's degree of preparedness to become a spearhead of financial inclusion are: i) network; ii) staff; iii) financial capacity; iv) trust; v) automation and process integration; vi) willingness to foster financial inclusion; vii) governance between the Post and postal financial services; viii) legal and regulatory framework; ix) marketing, and x) flexibility.

There is an equilibrium point between the two policy objectives necessary for postal financial inclusion to become a reality worldwide: the contribution to financial inclusion on one side, and the sustainability of the postal operator on the other. Without sustainability of postal operations, postal financial inclusion may not last. In the meantime, if postal financial services are not offered outside of the major cities, or only to those already banked, or at such a high price that it becomes prohibitive for the poor, then the postal operator will have little impact on financial inclusion.

Independently of the business models chosen, postal operators can be classified in four groups according to the role they can play in financial inclusion: i) advanced Posts; ii) emerging Posts, i.e. Posts which are able and willing to foster postal financial inclusion; iii) modernizing Posts, i.e. postal operators which are willing but partially unable; and iv) least developed Posts, i.e. postal operators facing major challenges to develop postal financial inclusion. For each of these groups, the paper presents suggestions for postal financial inclusion action plans that involve the postal operators, governments, central banks and development partners, and invites stakeholders to discuss these recommendations.

As a result of these action plans, the Post could provide a financial inclusion gateway for a billion unbanked people. If the 141 member countries of the UPU which do not offer savings services started to provide such services directly or through partnerships with banks, 500 million people could be financially included. In those 51 countries where postal savings banks are already present, at least 500 million people could enter the formal financial system in the next ten years. This will only be achieved if postal operators, supported by their governments and potentially donors, launched a modernization process.

I. INTRODUCTION

A. One billion people banked through the Post

In 2010, postal operators worldwide held 1.6 billion savings and deposit accounts. If we take a conservative position, and consider that an average postal client has 1.5 accounts, this means there are more than **1 billion people banked through the Post**. This does not take into account all the postal banks that have been partly or completely separated from the Post, as in Uganda or Serbia for instance. If we were to include this number we would find that more than 1 billion people use the postal sector for their accounts. Also, our estimates based on a number of country studies⁵ show that several hundred million people, often without an account, use the Post to make and receive basic payment transactions such as domestic and international transfers, government payments and utility payments.

To put this in context, CGAP estimates that the microfinance sector provides access to financial services, mostly credit services, for at least 173 million clients⁶, and possibly more than 200 million people. Meanwhile, mobile money deployments have had an interesting effect on increasing financial inclusion levels in at least five countries (Philippines, the United Republic of Tanzania, Uganda, Pakistan and Kenya), Kenya being the most striking case. Although growing at a fast pace, all in all, the total number of people having a mobile money wallet is less than 50 million⁷, of whom almost 20 million are in Kenya.

In the postal sector, there is no shortage of successful cases, in which concrete results have been delivered in terms of financial inclusion: for example, the Postal Savings Bank of China, which has 475 million customers; Brazil's Correios, with 10.2 million accounts opened in 10 years through a partnership with a bank; Namibia Post, which banks 20% of the total population in the country; Bangladesh, which offers instant money transfers between post offices using mobile phones; India Post, which covers risks for 20 million people through its postal life insurance policy and holds 250 million savings accounts; Papua New Guinea Post, which offers a mobile wallet on its own, and is one of the three main competitors for mobile

financial services in the country; Serbia Post, which makes 150 million financial transactions a year in a country of 10 million inhabitants, and the list goes on.

Postal operators, in all their activities, have always relied on a business model based on large volumes and low cost. This was the case for stamps as well as for savings passbooks. Combined with the universal service obligation through which the state gives the mandate to the Post to serve the entire population, these specific features shared by postal operators worldwide make the Post a worthwhile ally in the global fight against financial exclusion.

B. The knowledge gaps

The awareness gap

From the numbers presented above, we may see that the Post is already a strategic actor in the field of financial inclusion; however, there are still several key challenges to solve, on the policy side of things a main one is awareness raising. Few of the key actors present in the field of financial inclusion are aware of the important role Posts are playing, and can play in the future, to achieve widespread financial inclusion worldwide. Low awareness levels are due to two things: first, the information gap, since there is little research on the topic; and second, the general negative perception about the Post as an old fashioned institution which has lost its *raison d'être* in the digital era.

The lack of recognition is not a recent feature; indeed, already in 2004, the World Bank identified this awareness issue and mentioned in its publication on reforming the postal sector in developing countries that **"Post offices play a significant and, often, unrecognized role in access to basic financial services (payments, remittances, savings, giro)"**⁸.

The information gap

There is a vast literature covering the role of banks, microfinance institutions (MFIs), cooperatives and even state banks in fostering financial inclusion and access to finance. However, there are very few reports on the role of the Post for financial inclusion, and some were written almost a decade ago.

There is an information gap on the role of the Post as a catalyzer of financial inclusion, but also on the potential business models that a Post could envisage to develop its services. To date, no publication had analyzed and listed what makes a Post successful in financial inclusion and what the key challenges to be addressed are. This paper aims to answer those questions, both for decision makers, and for the postal operators themselves. It hopes to serve as the tipping point in postal financial inclusion.

⁵ In India, the Post is used to pay some of the 60 million NREGA (National Rural Employment Guarantee Act) beneficiaries. In most countries in the Europe and Central Asia region – the Russian Federation, Azerbaijan and Kazakhstan in particular – the postal operator pays several million beneficiaries of government payments, particularly pensions, both domestically and across borders. In Jamaica, two million transfers are made by the Post on behalf of the government each year.

⁶ Microcredit Summit figures, which capture data only from a subset of organizations. CGAP estimates put the number of microfinance institution clients at around 200 million.

⁷ Mobile money for the unbanked, deployment tracker as of June 2012..

⁸ Reinventing the Post Office in Guislain et al., *The Postal Sector in Developing and Transition Countries: Contributions to a Reform Agenda*, World Bank, 2004

Bridging the gaps

Thanks to a questionnaire answered by 123 countries, the concrete lessons drawn from the field missions conducted so far, the response to our call for postal financial inclusion success stories, and other activities of the UPU's postal financial inclusion programme, we have created what is probably **the most complete database⁹ on postal financial services worldwide**, spanning postal dimensions such as network, connectivity, staff qualifications and training, automation, cash management, legal framework, products and partnerships. The idea is to concentrate the entire knowledge base of the UPU and the postal sector in this field into one single document which can be shared widely, not only among Posts, but also with the international development community, and which could potentially be updated every four years.

This paper is intended to bridge both the information and awareness gaps by providing updated and previously unpublished statistical information on postal operators. Through an appropriate dissemination process, it hopes to raise awareness among decision makers and development partners alike, and open the way for postal financial inclusion to develop still further and be one of the main tools in solving the financial exclusion issue.

C. Financial inclusion: a postal definition

For the purposes of this report, financial inclusion is the access to, and usage of, basic financial services by the population that has been excluded from the formal financial system. The scope of the report is broad; financial services are considered to include all types of products belonging to the categories of payments, including bill collection or G2P (government-to-person) payments, savings and deposits, loans and insurance, and all combinations of the above. Our understanding of financial inclusion is also broad in terms of the channels used. We consider that branches, agents, ATMs (automated teller machines), POS (point-of-sale) terminals, mobile phones and the Internet are only different ways to access financial services, and not different products per se.

Postal financial inclusion is the process through which men and women excluded from the formal financial sector find a way into the financial system, using the postal network as a gateway. In other terms, postal financial inclusion is the provision of financial services for the unbanked through postal operators. Postal financial inclusion does not necessarily mean that the Post offers its own financial services to the unbanked; it can also mean that the unbanked can access those services at the Post through a partnership with a financial institution.

D. Financial inclusion: an overview

Almost half of the world's population does not have access to affordable, quality financial services like loans, saving accounts, insurance and payment services. Based on the recent World Bank Findex study estimates, there are 2.5 billion adults who have no account with a financial institution, most of them poor and living in deprived areas of the world¹⁰.

For those who are excluded, not having access to financial services means that they need to rely on their assets or social capital to invest in their education, become entrepreneurs, take advantage of promising growth opportunities, or face the financial challenges of a life cycle (illness, or death of a family member, among many others)¹¹.

Affordable, quality financial services help to reduce people's vulnerability and enable them to better plan for the future. Crop insurance allows small farmers to mitigate risks associated with extreme weather; using an account to save helps poor families to smooth consumption, to cover hoped-for investments, and to deal with unexpected expenditures; a migrant worker can rapidly send money to assist a relative back home; a loan provides funding for a woman micro-entrepreneur to invest in her business, or for a craftsman to buy equipment, while avoiding the extortionate interest rates charged by local informal money lenders.

But democratization of financial services goes beyond making people's lives easier. Studies in development support the association between financial development and economic development (see, for example, King and Levine, 1993; Beck et al., 2000; Demirgüç-Kunt and Maksimovic, 1998; Beck et al., 2004; Levine, 2005; Klapper et al., 2006; Demirgüç-Kunt et al., 2008). More recently, studies have sought to associate economic development with the concept of inclusive financial systems development. In that regard, some studies explore the concept of financial "exclusion" as a barrier to economic development, and the need to build inclusive financial systems (Beck et al., 2008). However, recent research, especially that led by Dean Karlan (Karlan and Zinman 2011) and Esther Duflo (Banerjee, Duflo, Glennerster, and Kinnan 2010), has shown through randomized control trials that the actual impact of microfinance on welfare at the individual level is not clear¹².

From a financial sector policy point of view, financial inclusion has many positive effects. First of all, bringing people into the formal financial system and opening accounts will increase the savings base of the national financial system and thus increase the liquidity

⁹ It should be borne in mind that the database relies mostly on self-reported data provided by Posts.

¹⁰ *Measuring Financial Inclusion: The Global Findex Database*. Asli Demirgüç-Kunt, Leora Klapper. World Bank, 2012

¹¹ *Finance for All? Policies and Pitfalls in Expanding Access*. Asli Demirgüç-Kunt, Thorsten Beck, and Patrick Honohan. World Bank, 2008.

¹² www.cgap.org/p/site/c/template.rc/1.9.55766

ratio, which should in turn push banks towards lending more to companies and individuals, thus boosting the national economy. Raising small deposits nationally is also a positive factor, since it reduces the financial sector's reliance on external funding, which can contract during financial crises, such as the one the world has been experiencing in recent years.

Secondly, bringing people into the system makes financial transactions hitherto made in the informal sector formal. This in turn allows for better traceability and compliance in terms of AML/CFT (anti-money laundering and combating the financing of terrorism), and increases financial integrity in the system¹³. A Global Partnership for Financial Inclusion (GPFI) White Paper actually recognizes financial exclusion as a risk to the stability of the financial system¹⁴.

A subsidiary effect of bringing an individual into the formal financial system, in a country which has a credit bureau capturing both positive and negative information, is the creation of a new file in the credit information system. This creation of a financial identity for the individual can, together with the financial history created over time, lead banks and other providers to grant that person further access to a broader range of products, in particular loans, and help avoid over-indebtedness.

E. Key challenges in financial inclusion

For all the positive effects that financial sector development and financial inclusion have on a country's

economic development, there still remain 2.5 billion people to be banked, and the estimates have not changed in the last three years, in great part owing to the poor quality of the initial data. It may be that if we include another key actor – the Post – in the picture, it could catalyze the effect of the actors that are already working towards reducing financial exclusion.

There are two main obstacles to financial inclusion which first need to be overcome in order to achieve the objective of full inclusion. In this section, we will see how the Post can represent one policy tool in addressing them.

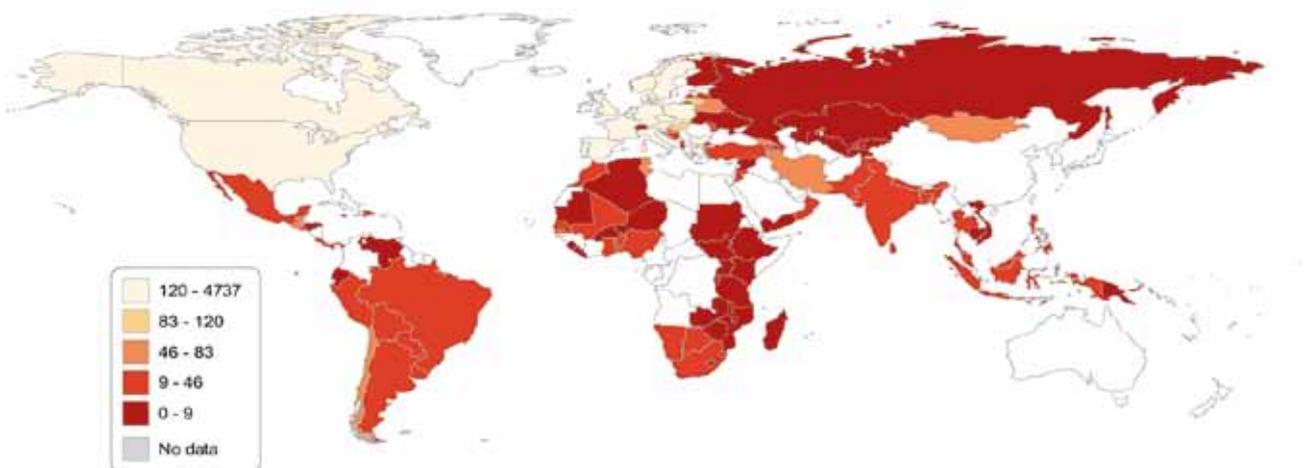
Accessibility

Policy challenge

The first and most noticeable barrier is the physical one, in other words, the presence of accessible financial contact points in the countries and regions with the largest unbanked populations. These contact points can take the shape of post offices, branches of commercial banks, MFIs and savings and credit cooperatives, ATMs, or banking agents.

The map in figure 1 shows the total number of outlets, including post offices, commercial bank branches, MFI branches, state-owned financial institutions and cooperative outlets, per 100,000 adults. This ratio provides an interesting measure of the potential for reaching those excluded by the existing network. The deficit is striking in those regions with the highest financial exclusion levels, such as West and East Africa. The darker the colour, the lower the density of financial system contact points.

Figure 1 – Number of financial system contact points per 100,000 adults



Note: Financial system contact points include post offices as well as branches of banks, MFIs and Cooperatives

Based on data from CGAP, Financial Access 2010

¹³ AML/CFT and Financial Inclusion, Guidance Note, Financial Action Task Force, June 2011

¹⁴ 2011 GPFI white paper "Global Standard-Setting Bodies and Financial Inclusion for the Poor – Toward Proportionate Standards and Guidance". Available online <http://www.gpfi.org/knowledge-bank/white-papers>

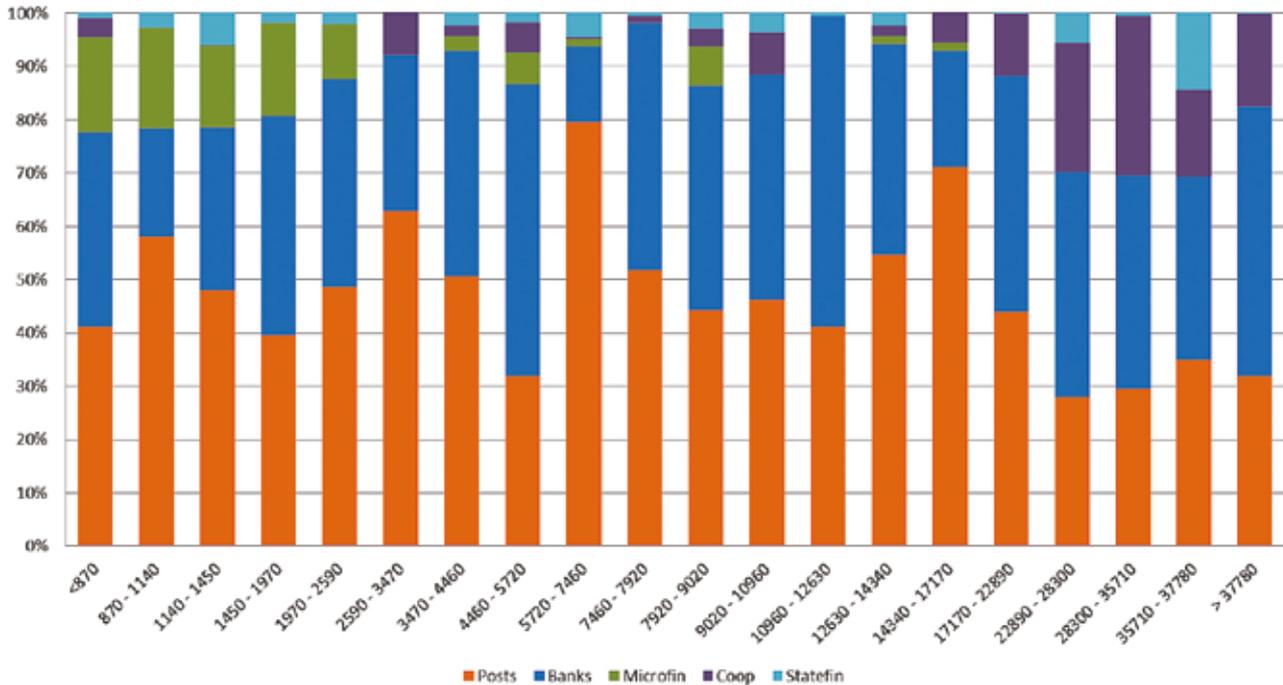
Postal solution

From a supply point of view, there is great diversity in the types of financial providers and their capacity to break the accessibility barrier.

In figure 2, we have divided countries into 20 groups (semi-deciles) according to their income levels in purchasing power parity terms. There are vast dis-

crepancies in terms of outreach across income groups in respect of formal service providers like banks, micro-finance institutions and Posts. We can see that, while microfinance networks are in a good position in terms of concentration of their contact points in the lower income countries, Posts are better positioned than all other actors, including MFIs at all income levels.

Figure 2 – Physical network access points to financial services in the world by level of development and type of financial institution



Note: Microfin stands for microfinance institutions; Coop denotes savings and credit cooperatives and credit unions; Statefin means state-owned financial institutions.

Source: UPU 2011 and CGAP, Financial Access 2010

In terms of geographical outreach, commercial financial service providers often do not reach rural or remote areas. As can be seen in the graph above, in most regions the postal network has at least as many contact points as the entire banking sector, which is composed of several, not necessarily interconnected, banking networks. This dominance should not come as a surprise, given that there were 662,000 post offices in the world in 2011¹⁵. In general, the outreach of formal banking institutions through their brick-and-mortar branches is not deep enough to serve the unbanked or underbanked customers. With the development of agent banking, this is slowly starting to change. Progress is slower for rural areas, however, since retail networks such as supermarkets or convenience stores do not extend too far beyond urban and semi-urban environments. Through meetings with many commercial banks

during recent field missions, in Sub-Saharan Africa in particular, we have come to realize that, with some notable exceptions, namely microfinance banks such as Equity Bank in Kenya, Banque Populaire in Rwanda, or ACLEDA Bank in Cambodia, the majority of commercial banks are still mostly interested in the corporate and high-value segment, and not particularly in the retail segment. Therefore, financial inclusion is not a priority for many of these institutions. This is not the case for Posts, which for the most part have always had a universal service obligation to offer services to everyone, independent of income, a mission that has also shaped the way they deliver financial services.

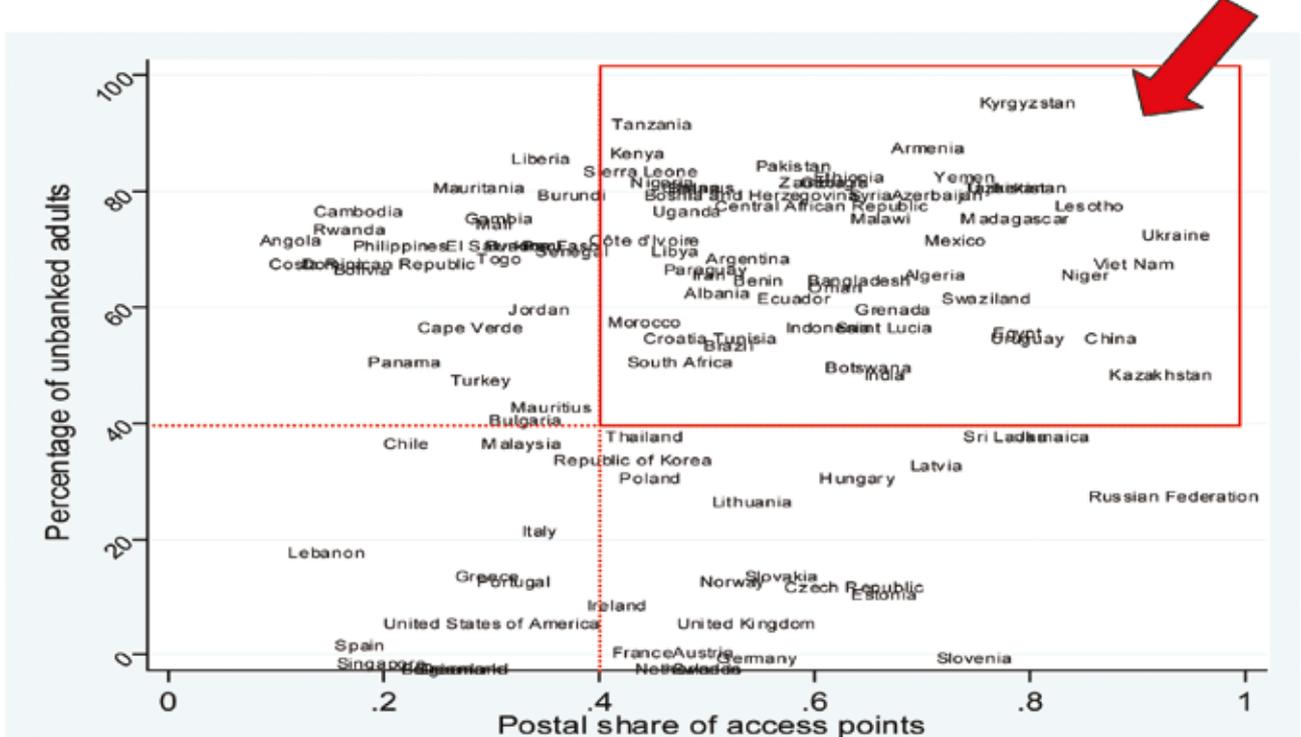
It is important to qualify the Post's network. As we will see later on, the postal network is composed of two main types of outlets: full-fledged, permanent post offices staffed by officials from the postal operator, which typically carry the full range of services, and postal agencies, which tend to be outlets that provide postal services but do not belong directly to the postal

¹⁵ Helble M., *Postal Statistics 2011*, UPU, 2012

operator. These agencies are managed by local government to offer services within their community, or are small shops offering basic postal services. This means that not all postal contact points are ready to offer

financial services immediately, but the potential is there, as has been seen in certain countries that have made the necessary investments to fully realize this potential.

Figure 3 – Network advantage and potential for financial inclusion



Note: The horizontal axis corresponds to the proportion of total financial service access points that belong to the Post.

Source: UPU, 2011; McKinsey 2009

In countries such as those highlighted in figure 3, where more than 40% of the population is unbanked, and more than 40% of the points of access are postal, the Post has a relative advantage over other financial providers in terms of outreach.

Worldwide, the only single network capable of providing access to financial services that could be larger than the Post's physical network is the virtual network of mobile operators¹⁶. Mobile operators provide coverage across the majority of the world's territories, and these networks can be used to perform or receive a transaction, in most cases a domestic transfer, as long as a person-to-person (P2P) service is available. However, it is interesting to note that in several instances where low uptake for mobile money has been observed, the main challenge is a lack of an appropriate cash-in and cash-out network. This was, for example, the case in Morocco with Maroc Telecom's Mobicash deployment. So even for mobile money, the wide physical network

of the Post would be beneficial. As for banks and MFIs, the Post is not necessarily a competitor, but an enhancer of mobile deployments. Low uptake in Haiti's mobile deployment has been attributed to the fact that people need to build trust in the new channel and in particular to understand how it works and have someone explain the service in order for uptake to come. In the case of Ghana, above-the-line marketing is usually not enough; peer referral could potentially deliver better results¹⁷. Providing the ability to talk to a person to whom the customer can relate, such as a post office teller, could be a great advantage for mobile money deployments. In Italy, 50% of PosteMobile subscribers use their mobile service to operate financial transactions. There, the combination of the largest physical network, the Post's operations as an MVNO and trust in the post office has been extremely successful for postal mobile financial services (More on the role of Posts in mobile money deployments can be found in case study 2.

¹⁶ Retailers represent a vast network worldwide, but those present in rural areas are usually not integrated networks, and require an integrator or master agent to be the contact point for the bank in order to reduce contracting costs.

¹⁷ For more information on this see the CGAP post: Opportunities in the Ghanaian Payments Market, Peter Zetterli, July 2012, http://technology.cgap.org/2012/07/24/opportunities-in-the-ghanaian-payments-market/?utm_source=feedburner&utm_medium=email&utm_campaign=Feed%3A+cgaptechnology+%28CGAP+Technology+Blog%29

Affordability

Policy challenge

The second main barrier is that of affordability. The demand for financial services among the unbanked tends to be highly elastic to price. The financially excluded can easily shy away from the financial sector if confronted with high costs. The World Savings Bank Institute (WSBI) has estimated the cost for banks of offering a transaction in Africa at 0.50 USD per transaction¹⁸. The brick-and-mortar business model still employed by many banks in Africa maintains a cost base that is too high for the limited volume of transactions and savings generated in rural areas. This explains why there is little interest on the part of commercial banks in banking poor rural populations in the traditional branch concept.

Postal solution

The cost of setting up the postal network has already been borne by the state, and the postal operator is usually not seeking to maximize its profits; therefore, it represents a good option in solving the affordability challenge. However, it must be noted that in several developing countries, the network of post offices is amortized but in a very poor state due to decades of under investment and insufficient maintenance. If tariffs are lower than those by commercial banks, it often can be explained by subsidies from government or tariffs that are not cost-oriented. These in turn lead to structural deficit by the post office, hence under investment and lack of maintenance. Usually, postal employees earn less than their bank counter-parts, even those providing the exact same service (for instance tellers for financial services), and other fixed costs are much lower since post offices tend to be less well equipped than bank branches (no air conditioning, for instance). Therefore, it can be less expensive for the Post to service accounts than for a bank. India Post calculated the annual cost of maintaining a postal savings account at 140 rupees, or 2.50 USD at current exchange rates. This rate includes the cost of all transactions on the account. Even though this number is not comparable with the transaction cost for a bank in Africa provided by WSBI, it gives an idea of the low costs for the Post. In a certain number of countries, the network is in poor condition after decades of neglect, and investments are needed to upgrade the systems, connect outlets, and hire staff with banking skills in order to modernize the financial services provision capacity of the Post.

In terms of barriers to entry, the Post is also much more progressive for savings than commercial banks. For instance, in Burkina Faso, the postal savings service does

not charge anything to open an account, the minimum deposit is only 2,500 CFA (6 USD), and no charges are made to clients who do not maintain a minimum balance. This applies equally to postal operators in many other countries. In Morocco, the postal bank (Al-Barid Bank) is by far the cheapest option in the banking sector, because it inherited the postal vision of large volumes and low cost. Low tariffs can be the result of efficient provision of services, or subsidies from government to deliver services to the whole population.

The Post offers a double solution to the affordability challenge: it can offer the services at a low cost directly, or working in partnership with other financial institutions it can provide a wide network at reasonable cost. But more is needed in terms of connectivity, staff skills and automation, among other things. Investment in refurbishing the post offices is also key to the signing of partnerships and to rebuilding trust in the postal network, as can be seen in several countries in East Africa where UPU studies have been conducted.

F. The Post as a catalyzer of financial inclusion

The Post can contribute to development and poverty reduction thanks to several comparative advantages over other financial providers: its physical access points; its trustworthiness; its universal mandate to serve the whole population, including the poor and rural segments, without discrimination; its role as a collector of small deposits, and its role as a logistics provider. All of these comparative advantages will be developed in the sections below.

G. Methodology

The first step towards overcoming the knowledge gap is to gain a clear understanding of the status of postal financial inclusion worldwide. For this reason, in December 2011 the UPU sent a questionnaire to the governments, regulators and postal operators of its 192 member countries. Responses were received from 123 countries.

¹⁸ *Mass Retail Banking: How savings banks in Africa, Asia and Latin America can provide usable services to the poor*, WSBI (forthcoming)

Figure 4 – Member countries participating in the study



Source: postal financial inclusion survey, 2012

The map above shows the countries that took part in the survey. Unfortunately, Middle Eastern and North African countries are under-represented. Given political instability, countries such as Libya, Egypt, Sudan, South Sudan and Afghanistan were not in a position to respond. The extensive questionnaire was composed of 106 questions. It gathered information on the following topics relevant to postal financial inclusion: network, connectivity, IT, human resources, cash management, organizational structure, legal framework, payment systems, business models, partnerships, and products offered through Posts. The information gathered through this questionnaire has been supplemented with lessons learned during the nine missions carried out in the field in Kenya, Morocco, Ethiopia, Mali, Laos, Tanzania, Uganda, Brazil, Italy and with success stories in postal financial inclusion sent to us by countries.

For this paper, we prepared a conceptual framework to help us understand the panorama of postal financial inclusion today. This framework consists of two parts: i) Key issues and ii) Business models. We then used this framework to analyze and present the large quantity of information gathered by the survey. The objective was to provide a baseline of where we stand today, and identify which regions and countries are faring better on financial inclusion than others and why. This global report, together with the regional analysis, should make it easier for decision makers and practitioners to understand which operators are performing well in postal financial inclusion, to learn from best practices in this field, and to evaluate which business models are best adapted to the local context and able to deliver a positive impact both in terms of reducing the unbanked population and of consolidating the financial sustainability of the postal operator.

II. BUSINESS MODELS

Posts have been the government's financial inclusion arm since the beginning of the 20th century in many countries, and at least since the 1960s in most. Posts offered basic domestic and international money orders for the poor, which were previously the main means of payment in rural areas, and offered basic savings accounts and savings bonds on behalf of the national treasury, which were in most instances the only savings instruments available to the poor. Over the years, the offer has diversified, and so have the delivery mechanisms. Postal financial inclusion has become a multi-faceted concept reflecting different realities around the world.

This diversity can be better understood by classifying countries according to the business models adopted to offer financial services.

Our understanding of a business model is the design of organizational structures to enact a commercial opportunity¹⁹. In the context of postal financial inclusion, the commercial opportunity is to increase the financial sustainability of the Post while increasing access to and usage of financial services by those excluded from the formal financial sector. The organizational structures in this case are the different shapes Posts take to offer their services. To put it more prosaically, business models for postal financial inclusion are the option chosen by the Post to offer financial services to the poor and rural populations given local context, legal and regulatory frameworks, and capacity constraints (at both the financial and human resource level). This

means that business model adoption is determined by several factors, which we will detail in this section.

This report aims to establish a broader typology based on the financial inclusion work that has been ongoing at the Universal Postal Union since 2009 and the results of the UPU financial inclusion survey 2012. There have been few attempts to establish a classification of business models for financial inclusion through Posts, but one worth citing in particular is Hans Boon's Postal Banking Business Models which consolidated the business models around three main categories (historic postal savings model, partnership model, and postal financial network arrangements)²⁰. The typology presented here intends to reflect the increasing diversity of business models and of partners.

Our typology is based on the level of engagement of the Post in the offer of financial services and their potential impact on financial inclusion. In the business models 0, 1 and 3, financial services are actually not those of the Post, but rather those of an external party which uses the postal network as a platform for outreach. Business model 2 and the latter two business models (unlicensed and licensed postal financial services) are those for which the Post is directly involved in the provision of services. However, because there are many dimensions cutting across the business models, we have decided to deconstruct them into sub-business models, in order to reflect the multiple nuances of reality. It is also worth noting that Posts do not necessarily operate in only one business model, but actually use one, two, three or multiple business models to fulfil the needs of their customers. Often, Posts move upward in the business model scale without eliminating the previous stage.

Figure 5 – A typology of business models for postal financial inclusion

Business model 0: real estate provider

Business model 1: cash-merchant (CM) for transactional financial services

BM 1a: CM for remittance service provider (P2P)

BM 1b: CM for government payments (G2P and P2G)

BM 1c: CM for bill collection (P2B)

BM 1d: CM for insurance companies – collection of premiums, payout of insured amount

BM 1e: CM for mobile network operator – registration, cash-in, cash-out

BM 1f: CM for MFIs and banks – loan disbursement and repayment

BM 1g: CM for MFIs and banks – deposit and withdrawal from accounts

Business model 2: proprietary transactional financial services

BM 2a: proprietary domestic transfers (Bangladesh)

BM 2b: proprietary international transfers

¹⁹ *The business model in practice and its implications for entrepreneurship research. Entrepreneurship Theory and Practice.* G. George and AJ Bock, 2011.

²⁰ *Postal Banking Business Models.* H. Boon 2010.

Business model 3: partnership with a financial service provider

BM 3a: partnership model with an insurance company to offer its services

BM 3b: partnership with a mobile network operator for financial services

BM 3c: partnership model on a regional basis (India)

BM 3d: CM for multiple banks but partnership for savings accounts (UK)

BM 3e: partnership model with a bank (Brazil)

BM 3f: partnership model with a post bank or a government savings bank partly or completely independent from the Post (Tanzania)

Business model 4: unlicensed postal savings and financial services

BM 4a: unlicensed postal giro centre and savings bank (accounts)

BM 4b: unlicensed postal insurance

Business model 5: licensed postal financial services

BM 5a: microfinance licence

BM 5b: limited post bank licence

BM 5c: universal post bank licence

Business model 0: real estate provider (Malawi)

Posts are often owners of very valuable real estate. Having been established several decades ago, post offices within a country and even in main cities benefit from prime locations right at the heart of the cities, towns and villages, or close to markets. This being so, for financial service providers looking to deploy their services without spending too much on brick-and-mortar branches, the first option is to work out an agreement with the Post to rent the latter's real estate. This model is referred to as business model 0, because, unlike the

other five models described below, it cannot be considered in full as a model of financial inclusion. The Post provides its office space to a bank in the same way as it could provide it to any other company interested in the retail business that can benefit from foot traffic in the post offices.

SWOT analysis

There are many possible arrangements, all of which revolve around having a partner use a portion of the real estate of the Post to offer its own services.

Figure 6 – SWOT analysis BM 0



Description

The Post can rent booths inside post offices to financial service providers so that they can use the space to offer their products. Usually, booths are found inside the main hall, and have the branding of the financial service provider. Staff of the financial service provider man them. In this sub-business model, financial providers seek not only physical space, but also security, and the foot traffic that post offices draw. In general, the Post charges a fixed cost per month for the use of its infrastructure. Another possibility is for the financial service provider to rent a portion of the Post's real

estate. In that case, the Post decides to rent part of its real estate – either a whole post office or parts of it – to the financial service provider. The contribution to financial inclusion will depend on the commitment and effectiveness of the partner.

Determinants

The main determinants for this business model are the security features in post offices, and the level of foot traffic in post offices. A good proxy for the level of foot traffic, which in most developing countries is not calculated, is the number of transactions performed, divided

by the number of branches. It is important to take into account the unofficial 20-80 postal rule, whereby 20% of post offices make 80% of transactions and vice-versa.

Business model 1: cash-merchant (Kenya)

Description

Another basic business model for postal financial inclusion is the cash-merchant model, in which a Post offers a single private partner or multiple partners the use of its offices and staff for transactional financial services. Revenue generation for the Post consists in charging a fee per transaction. In this cash-merchant model, financial institutions, government authorities and utility companies, among others, use the postal network and staff to reach potential customers in underserved regions. The cash-merchant model is intended to provide financial services to both the unbanked and the underbanked, allowing them to have access to their key financial products closer to home by using the vast network of the Post. Technology is an important factor in the cash-merchant model, since the use of computers linked to the Internet, POS terminals and mobile devices is what allows customers to perform transactions through the Post in a secure and efficient manner. The cash-merchant model is based on the idea that the more contracts the postal operator signs, the more traffic it will receive in its offices, which will in turn increase its viability.

Rationale for adopting the business model

As more and more Posts have become state-owned enterprises, they now have the objective of being

financially viable with little government support. Usually, Posts have a vast infrastructure network, including postal agents, which needs to be maintained as part of the universal service obligation. Maintaining this network comes at a price, and the mail business is slowing down. Posts are therefore looking for ways to diversify their revenue-generating activities by building on their key comparative advantage: their network. Since most costs cannot be reduced without political impacts, and should by no means be reduced through the closing of branches, which are the main comparative advantage for the Post, improved profitability should come from new revenue streams, in this case financial services.

Determinants

Features critical to the success of a cash-merchant model are a relatively strong cash flow, a large country-wide network, and relatively good connectivity of post offices. Concentration of banks in urban areas is also an important criterion in determining whether Posts have a comparative advantage in terms of outreach when compared to banks.

SWOT Analysis

The cash-merchant model is the one most widely used by Posts worldwide. Indeed, it is the easiest to implement, and does not require much initial investment. There are several sub-models of cash merchant which can be defined. Since payments are the most common financial service at the Post, it is important to include the dimension of who provides the service in order to analyze the different categories of cash merchant and their characteristics.

Figure 7 – SWOT analysis BM 1



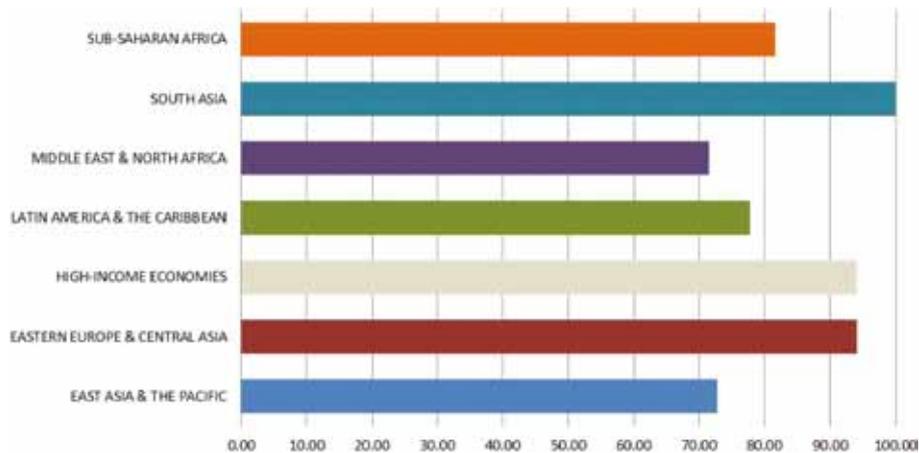
BM 1a: CM for remittance service provider (P2P)

Posts have been operating money orders, a particular type of international remittance, for well over a century. The first UPU international treaty on postal money orders was adopted in 1878. There are two types of remittances: domestic and international. Usually, postal operators offer domestic transfers on their own. Meanwhile, for international remittances, Posts tend to act as cash merchants for one or more service providers, for which they pay remittances in urban and rural areas. In many countries in the developing world, particularly in

sub-Saharan Africa, postal operators are not allowed to operate directly as agents for money transfer companies, and often become sub-agents for banks and other financial service providers, which operate as the main agents and pay commission to the Post.

Figure 8 shows the percentage of post offices by region which operate remittance services. As we can see, in all regions, more than 70% of postal operators offer these services. International postal payments are the best distributed product across income and across regions.

Figure 8 – Percentage of postal operators offering international remittances by region



Source: postal financial inclusion survey, 2012

BM 1b: CM for government payments

Aside from remittances, the next most important financial service offered by Posts is government payments. Posts in many countries are used by the government as a way to integrate territories and provide public services to the population. The payment of government employees' salaries and pensions was, and remains, a key role for the Post; this is particularly true in rural areas where banks are absent but military personnel, teachers and nurses still need to receive their salaries. In several cases, postal operators are designated by law as the sole providers of government payments.

This sub-business model consists in developing agreements with governments to pay conditional cash transfers or government salaries.

However, in recent years, studies have started to address the link between G2Ps and financial inclusion. Increasingly, there is international pressure to use those G2Ps as a gateway into the financial sector, and thus for those payments to be made to a bank account. In that context, the cash merchant for government payments business model is under heavy attack in most parts of the world, as more and more governments decide to revoke the use of postal service for pension payments.

The key challenge for this business model is therefore the modernization of Posts from a cash-merchant model towards the offering of payment accounts, or at least some form of multi-purpose prepaid card, which is something Posts such as Argentina are envisaging, and has already been implemented in the UK.

Figure 9 – Posts in partnership with governments for G2P



Source: postal financial inclusion survey, 2012

This sub-business model is probably one of the most important in the cash-merchant sphere. It is the model with the best potential to serve as a first step towards postal financial inclusion if modernization occurs, as in the case of Greece.

Case study 1: Greek modernization of government payments led the Post from a G2P cash-merchant model (BM 1b) to develop its own postal giro accounts (BM 4a).

On 1 January 2011, Greece's New Social Security and Labour Law (No 3863) entered into force. Article 40 of this law regulates the operation of payments across the public sector, requiring all payments (salaries, pensions and benefits) by the central government, local authorities and state-controlled companies to be made by crediting the beneficiary's account. The law allows the account to be held at a banking institution or at a post office, depending on the customer's choice.

The postal financial services offered by ELTA, the Greek postal operator, including bill collection, pensions and social benefits payment, and also money transfers, represent a very significant proportion of ELTA's overall turnover. However, the lion's share of payments is sourced from its cooperation with pension funds (pensions and social benefits). Previously, these payments were delivered to people's homes in the form of cheques. Clearly, the new law requiring direct crediting of beneficiaries' accounts instead of physical delivery threatened this part of ELTA's income, and could have driven it out of business.

ELTA had to face this threat either through cooperation with a bank (on an agency basis or through subcontracting), or by seeking an alternative method. ELTA chose to address this new payment environment by taking an autonomous approach, launching a system of giro accounts. **In less than a year, more than 800,000 giro accounts were launched by ELTA, offering a cheaper and more appropriate solution to the needs of the population than the old system of cash payments.**

BM 1c: CM for bill collection (P2B)

Another variant of the cash-merchant business model is when the Post enters into an agreement with a utility company to provide bill payment services at its post offices. The minimum precondition for such partnerships is that the Post agrees to work with a partner and sets the conditions in a service level agreement. Operationally, this business model does not require much, and can be put in place quite easily: bill payments do not require the Post to have access to the database of the utility company, and bill collection can even be performed using a completely manual system.

Large billers generally see the Post as an opportunity for their client base to pay bills closer to home, and tend to proactively engage the Post to offer this service. There is no competition among different partners in this case. The Postal Corporation of Kenya is a good example of this model, with more than 100,000 bills paid at post offices each month on behalf of utility companies such as Kenya Power.

Challenges

The main challenge for this model is that it does not deliver a large impact in terms of financial inclusion. Indeed, in developing countries the poor are usually off grid, and do not pay utility bills. For those who do, paying bills is hardly a first step into the financial system. So this is a useful service for the Post, because it can drive a lot of people to post offices and increase transaction levels, and is a good source of revenue for Posts, but it is certainly not a sub-business model that will deliver strongly on financial inclusion.

BM 1d: CM for insurance companies – collection of premiums, payout of insured amount

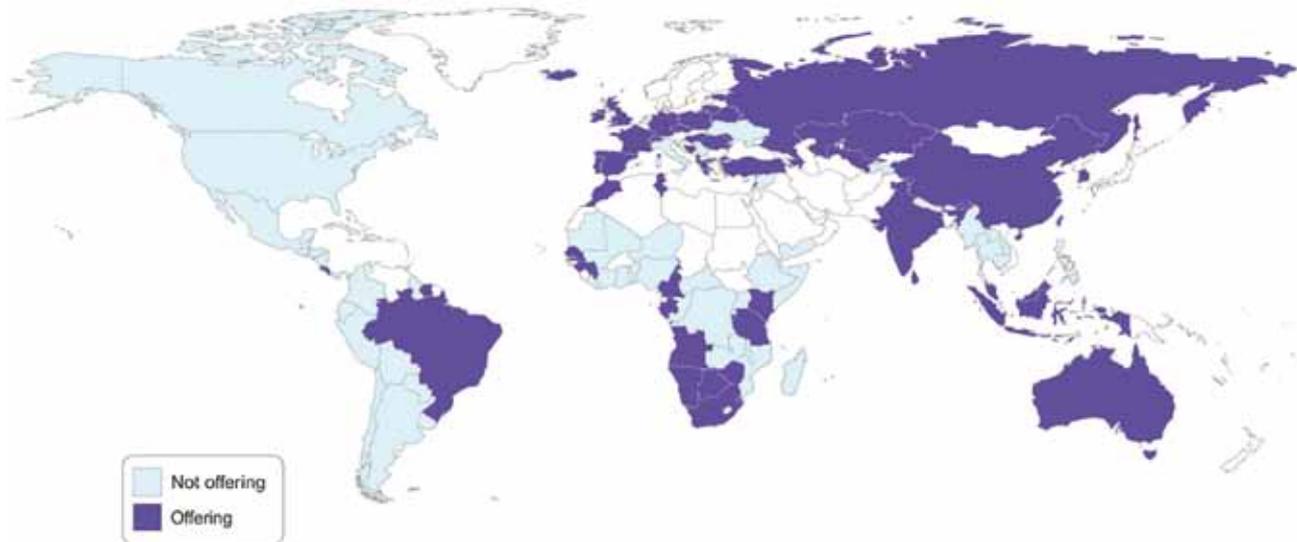
Insurance companies in the developing world look for partners to increase their client base. There is a growing trend, particularly in Africa, for insurance companies to move into the retail segment, most notably in the area of life insurance. In some countries such as Mali, interesting micro-insurance services sold via prepaid products are emerging.

There are several models for insurance partnerships; however, this sub-business model refers only to those Posts that collect premiums and pay out the insured amount. If the Post were to be more closely involved in the sales process or in the claims process, then the relevant model would be BM 3a. In general, Posts can offer a solution to insurance companies looking to go downmarket without entailing excessive costs. In Mali for example, a UPU mission found that an insurance company specializing in micro-insurance was very keen to use the postal network.

In Ethiopia, one of the conclusions of a market study carried out by the UPU postal financial inclusion programme was that the Ethiopian Postal Service Enterprise could benefit from becoming a distribution channel for insurance companies. The insurance sector in that country is highly concentrated and lacks coverage across the country. Delivery channels have been identified as a key constraint to increasing access to insurance services. Therefore, the timing seems ideal for developing a partnership with an insurance company interested in developing its retail business.

In terms of regulatory issues there are few obstacles, since insurance companies' business model has mostly been based on agents.

Figure 10 – Posts in partnership with insurance companies



Source: postal financial inclusion survey, 2012

BM 1e: CM for mobile network operator (MNO) – registration, cash-in, cash-out

The success of a mobile money platform is based on customer confidence and an appropriate ecosystem. The Post offers a wide ubiquitous network that provides a supporting ecosystem. Therefore, even if the Post is not present at the beginning of a deployment, it can join the cohort of agents at a later stage of development to operate as a cash merchant. In some countries, the Post benefits from a strong trust capital.

In the case of Kenya, after the Postal Corporation of Kenya (PCK) rejected Safaricom's offer because of the

exclusivity clause required by Safaricom to become an M-PESA agent, Zain (now known as Airtel) contacted PCK to become a cash-in/cash-out agent. The partnership agreement was signed, and today PCK offers Airtel Money services in its branches. The same applies to Orange Money which, as the last competitor to enter the market, faces major challenges developing an agent network. A partnership with PCK would be a blessing for the smaller operators since it would give them access to a dense network with little effort (see case study 2 for more information about Kenya).

Case Study 2: Mobile money: what role for the Post? Drawing lessons from Kenya and the World

In no country in the world has mobile money caught on at a faster pace and revolutionized the entire financial services industry more than in Kenya. This has had a negative impact on the Post's domestic remittances product and, worse still, it may even begin to challenge PCK's hyper cash-merchant model, on which the postal diversification strategy is based. Since there are more than 100 mobile money deployments around the globe, with varying degrees of success, it seems important to extract lessons from the case of Kenya to understand the potential role for a postal operator in a mobile money scheme.

1. The Post as a catalyzer in an early mobile money deployment

A major role for the Post is to allow mobile network operators (MNOs) to reach a critical mass of agents in a quick and effective manner, at an early stage of mobile money deployment.

In Kenya, Safaricom approached PCK early, as it was interested in using post offices as a cash-in/cash-out network. However, the contract contained an exclusivity clause requiring PCK to work only with M-PESA and no other mobile money provider. PCK's legal department advised the business department against this, and negotiations broke down. Had PCK agreed to become an agent, it would probably have allowed Safaricom to deploy its agent network even faster, and the Post would already be fairly well integrated in the M-PESA ecosystem.

Now that mobile payment deployments are occurring all over the world, it seems that postal opera-

tors have a clear role to play in the success of such endeavours. Mobile money is based on the network effect and requires a critical mass – of customers, but also of agents – to become sustainable. Analysts of M-PESA's success determined that a key success factor was that it was wise enough to initially launch the service with a large number of agents offering exactly the same service, and then to expand the agent network proportionally to customer uptake. The Post is exactly that: a wide integrated network with the same service and the same procedures throughout. This model was adopted in 2010 by Orange Money in Madagascar, where the Post offered the service through its network of 240 offices, thus providing a solid platform from which Orange's service could expand.

In such a scenario, the revenues from the cash-merchant model might be higher than if the Post joins at a later stage. The Post's capacity for negotiation decreases as the number of agents offering the service and customer uptake grow. For instance, in Kenya, Safaricom's 32,000 agents make the Post's 744 contact points redundant. However, due to its status Safaricom still agreed to include them as an agent under a non-exclusive contract.

2. The Post as an additional cash merchant for mobile money, particularly for non-dominant MNOs

The success of a mobile money platform is based on customer confidence and an appropriate ecosystem. The Post offers a wide, ubiquitous network which provides a supporting ecosystem. Therefore, even if the Post is not present at the beginning of a deployment, it can join the cohort of agents at a later stage of development to operate as a cash merchant. In some countries, the Post benefits from strong trust capital which other agents, such as fruit stands or other merchants, have to build gradually.

This is what happened to Airtel Money in Kenya. After PCK rejected Safaricom's offer, Zain (now known as Airtel) contacted PCK to become a cash-in/cash-out agent. The partnership agreement was signed, and today PCK offers Airtel Money services in its branches. The same applies to Orange Money, which, as the last competitor to enter the market, faces major challenges developing an agent network. A partnership with PCK would be positive for Orange Money in terms of outreach.

3. The Post as a super agent

In the early stages, Safaricom used its master agents, which sold airtime, as the distribution channel for its mobile money product. After realizing that by using a third-party provider (Top Image) for agent training and control, it did not need master agents for its mobile money product. M-PESA began to work directly with the field agents. In a third stage, M-PESA realized that it needed to offer a facility for buying and selling float accessible to all its agents. It therefore created the concept of the super agent. Most super agents are banks, because such an activity requires significant cash availability. Given PCK's cash management capacities and the capillarity of its network, it seems it could offer super-agent services even closer to the rural agents.

From the Kenya case, we can derive a third role for the Post in the context of mobile money, which is that of a super agent for the mobile money operator. The conditions for this role are the existence of a solid cash management system, enough liquidity in the network, and the existence of appropriate cash-in-transit services (e.g. armoured vehicle services).

4. The Post as a multi-operator cash merchant

In countries where the Post does not want to work with only one mobile money operator, it can offer cash-in/cash-out services for several operators, thus becoming a physical switch for customers.

In the case of Kenya, PCK operates with Safaricom and Airtel Money; however, Orange Money is also interested in using the network to develop its agent penetration, which remains limited. Thus far, mobile money services in Kenya have not been directly interoperable. An M-PESA customer cannot send money from his/her wallet to an Airtel Money wallet. However, he or she could send the money to an Airtel customer who can receive it in cash at an M-PESA agent. If the Post offers cash-in/cash-out services for M-PESA and Airtel Money, the cash can be received from M-PESA at the Post and instantly loaded into an Airtel wallet, without having to visit separate agents. This multi-operator facility could be useful in a world where mobile money is not interoperable across operators. This model is less than perfect, because every time e-value is converted into cash the customer pays. The following model could avoid such frictions.

5. The Post as a switch among mobile money operators

Integrated platforms, compatible with all existing mobile telephone networks, are presently being developed and tested in Kenya by a local IT giant, Craft Silicon's ELMA platform²¹. This application, which works only on 3G smartphones, enables the user to perform transactions across networks. It claims to be the solution to the main challenge of mobile money: interoperability. The developer will make the service available to all banks free of charge, and customers will pay a monthly fee of 80 KES to perform as many transactions as they wish.

PCK's ambitions are smaller, however, and the postal operator is looking to acquire a multi-channel transaction-processing platform which would allow it to perform transactions over several channels (mobiles, POS, etc.) for which it has agreements with providers. The platform will, however, not become a switch for interoperability among the market's different mobile wallet providers. Given the necessity of a reliable automated back office, such developments appear easier to perform under an alliance with banks such as Postbank or Kenya Commercial Bank (KCB).

However, other countries where Posts may have a larger pool of resources available for investment and strong in-house IT capabilities could develop their own switch. This would allow them to transfer money from one mobile wallet to another, playing a consolidator's role and thus becoming an unofficial mobile payment system.

In Kenya, PCK appears to be stuck with solution number 2, which is to be an additional cash merchant for the players on the mobile money market. However, it would like to move up the ladder and is considering using solutions 4 and 5 as part of its strategy to get back at the centre of domestic electronic fund transfers. The issue of funding then becomes critical.

6. Postal-led mobile money deployments

In all previous cases, the Post is considered as a secondary element in a mobile money deployment. The question then arises as to whether or not Posts can offer their own mobile money service: a postal-led mobile payment model.

Posts in the developing world have reacted in diverse ways to the mobile innovation flourishing around them. Most have become cash merchants for mobile money operators. However, in countries like Bangladesh and Yemen, the response has been different. In Bangladesh, the development of an electronic funds transfer system (EFTS) has made it possible to connect the rural post offices through the mobile network, thus allowing for speedy domestic remittances across Bangladesh Post's physical network. This is a first step taken by several Posts even in some of the world's poorest countries such as Mali. There, as well as in Gabon, the postal operator has acquired servers and communication technology equipment. With the help of a technology partner from Senegal, the operator is linking its rural post offices through mobile networks and offering instant domestic remittances. Service uptake in both cases is good. However, it is even stronger in Bangladesh, where postal staff receive an incentive for EFTS transactions. Any Post in a mobile deployment should therefore consider incentives for postal staff.

While this first step seems to have been implemented in several places around the world, Posts offering P2P mobile wallets are more scarce. This is mostly due to the usual lack of disposable income to invest, but also to constraining legal and regulatory frameworks.

In Italy, however, Poste Italiane has developed a mobile banking platform targeting, among other segments, underbanked migrants. Through an agreement with Vodafone, the Post has become a mobile virtual network operator (MVNO), which allows it to use the MNO physical telecom network and offer its own voice, data and value-added services over the network. PosteMobile takes advantage of the wide spectrum of financial products offered by Poste Italiane to provide its customers with mobile banking and mobile payment services. By linking their PosteMobile SIM cards to their postal bank accounts or Postepay prepaid cards, customers can engage in a number of financial services using their mobile phone as an access point. In particular, PosteMobile customers can make transfers to other BancoPosta accounts, or any other bank accounts, recharge a prepaid card from their postal bank account, transfer money from one prepaid card to another, send money abroad to their families, or purchase products and services by paying from the BancoPosta bank account or the prepaid card²².

While Italy has managed to put together successful postal-led mobile banking, few countries in the developing world have an e-money framework, and those that do usually do not allow Posts to become issuers

²¹ Tech firm pulls down cost of e-commerce with new app, *Business Daily*, Nairobi, 11 August 2011

²² PosteMobile: delivering innovative mobile banking and commerce solutions, in *ICTs, New Services and Transformation of the Post*, UPU-ITU, Berne, 2010.

of e-money. The Yemeni postal operator, however, has decided to challenge this situation. Yemen Post has had account-based services for many years and is one of the most financially solid Posts in the Middle East and North Africa region. This has allowed it to invest in a project to develop P2P mobile payments which will be interoperable over the two major mobile networks. Yemen Post will offer access to its savings accounts directly from mobile phones. The Central Bank has agreed that this project can move forward.

In Tunisia, the Post signed a partnership in May 2012 with Tunisiana, a private operator, to offer mobile financial services which are housed at the Post.

The cases above demonstrate that tech-savvy Posts which offer their own postal financial services and are allowed by legislation to do so can consider teaming up with telecommunications companies to develop their postal-led mobile money scheme.

As a general conclusion about the role of Posts in mobile money, the Kenya case shows us that Posts offering financial services need to foresee and quickly adapt to changes in their competitive environments. If they fail to do so they might be crowded out by faster and more efficient services. For now, Kenya, along with the Philippines and potentially Pakistan, Tanzania and Uganda, is the only case of a mobile money environment truly revolutionizing the financial services market, but others will probably follow. Unless Posts have deep pockets and move fast enough to develop their own service they must be ready to embark on cash-merchant partnerships with mobile network operators at an early stage if they are to remain competitive.

Source: Kenya case study, Alexandre Berthaud, UPU, 2011

In this sub-business model, the Post performs the following transactions: registration, cash-in and cash-out on behalf of the mobile network operator or mobile money provider, and charges for each transaction.

BM 1f: CM for MFIs and banks – loan disbursement and repayment

Sometimes the Post can provide cash-in and cash-out points on behalf of banks, microfinance institutions, savings and credit cooperatives (SACCOs), and other cooperatives. In this case, the Post does not open accounts on behalf of the banks or microfinance institutions, and does not even offer transactional services on accounts. It limits itself to paying out the loan principal and receiving the instalments from the clients.

In Benin, the Post has entered into agreements with MFIs whereby post offices in rural areas collect periodical repayments from MFIs' clients and repay these institutions at a central location. In Egypt, the Social Fund for Development (SFD) is collaborating with Egypt Post to establish a not-for-profit microfinance management entity which would use post offices to provide loans to economically active poor people in rural and semi-urban areas of the country, thereby extending the outreach of microfinance. A World Bank project launched in 2011 in the same country is also looking into using the Post as a delivery channel for banks to lend to MSMEs at a cheaper cost.

Since the Post is not engaged in the risk analysis of the loans and there are no transactions made on the accounts, the risk for the financial service provider is low, and technically there is no need for an interface between the Post's management information system

(MIS) and the banks. For the banking supervisor, this is therefore a business model which is easily acceptable. This model presents several advantages for banks and MFIs, which can deliver their services to their clients at low cost in every corner of the country.

Challenges

The key challenge for this model is that if MFIs and banks do not promote their services outside of their outreach areas, there will be few customers who know about the service, and only those who are already banked will use it. Without promotion it brings convenience to clients but does not increase banking levels. Also, if the partner institution does not promote the Post as one of its cash merchants, then the number of transactions may be extremely low and may not be viable for the Post.

BM 1g: CM for MFIs and banks – deposit and withdrawal from accounts

This sub-model is an upgrade from the previous one. Indeed, in this version, the partners are the same, with the postal operator on one side and the bank or MFI on the other; however, the products are different. Posts using this model offer the financial partner's clients access to transactions on their accounts: withdrawals and deposits.

This is a common model around the world because of its ease of implementation and the great benefits it brings not only in terms of viability for the Post but also of financial inclusion impact. Countries such as Indonesia or Ghana offer this service. In Indonesia, the postal operator has signed a non-exclusive partnership agreement with a Bank (PT Bank Tabungan Negara) and operates 540,000 transactions per month for this partner.

Challenges

The fact that a customer cannot open accounts at the post office is limiting for financial inclusion since the unbanked population will not be able to enter the financial system through this structure. It is a business

which provides greater accessibility for those with existing accounts. Therefore, to increase the impact of such a model it needs to be combined with an outreach effort from the banks or other financial service providers.

Case study 3: Pos Indonesia's one-stop shop for banking services

Through its 7,700 online post offices, which are well spread geographically, Pos Indonesia has achieved a position as the main place to perform bank transactions close to home, in this nation composed of more than 17,000 islands. It has signed special agreements to offer financial services (usually withdrawals, deposit and payments) with three of the four large state-owned banks, Bank Negara Indonesia (BNI), Bank Mandiri, and Bank Tabungan Negara (BTN), for mortgages and housing finance. In the spring of 2012, it cancelled its agreement with Bank Rakyat Indonesia (the fourth state-owned bank) through which the bank offered loans to pensioners collecting their benefits at Pos Indonesia, using pensions as collateral. PT Pos also signed a partnership at the end of 2011 with Bank of Central Asia (BCA) to offer withdrawals and deposits for BCA account holders, as well as remittances. For payments of personal loans and credit cards using its POS-Pay service, Pos Indonesia has agreements with Muamalat Bank, ABN AMRO, AIG Lippo, Takaful, BNI, Bank Internasional Indonesia, TKI, BTN, Citibank and HSBC.

As a result of this push in agency services, in 2010, financial services represented 34% of the total income of the Post, and are the fastest growing activity at Pos Indonesia.

Conclusions – business model 1

The difference between this business model and business model 3 is that the partnership does not imply a strong involvement of the parties as in business model 3 (partnership model), which relies on investment in human, technical or financial resources of both parties to deliver results. Also, in business model 1 the postal operator does not sell the products on behalf of the other party, nor does it receive documentation in the name of the partner (loan-request forms, documentation required at account opening, documentation required for insurance claims). And in business model 1g (cash merchant for MFIs and banks with deposit or withdrawal of funds) there is no opening of accounts, only transactions.

Business model 2: proprietary transactional financial services (Bangladesh)

Description

Postal money orders generally form part of the traditional postal operator core business. Several decades ago, before electronic payments became the norm, postal money orders were part of the basic supply of financial services that the Post provided to the general population. In fact, there were few other ways to convey money from one point to another. Money orders existed both for domestic transactions and for international transfers. Today, in most Posts these paper-based services have largely been replaced by electronic means of payment. For domestic payments most posts work on their own system, while for international payments it is the collaboration among the postal sector which

allows for proprietary transactional services to exist. The development of a worldwide postal electronic payments network by the UPU has been focused on facilitating and securing international money orders by creating a closed-loop payment system interconnecting postal operators and their offices.

Post offices that operate under business model 2 have developed or acquired their own self-operated platform to connect their offices and allow for money transfers to flow. However, one can find a great diversity within this business model, which was previously the most widely used but is now losing ground to partnerships and agency services. For instance, some countries such as Ethiopia use fax for their proprietary domestic money orders, whereas Bangladesh Post was able to develop in house its own electronic money transfer system for domestic transactions using mobile phones and SMS messaging to link its post offices and to inform customers of transactions.

We have classified this business model after the cash-merchant business model because it generally requires a bigger involvement and investment on the part of the Post to develop an electronic money transfer system or to set up international electronic remittances with its peers.

Usage:

In 63.3% of countries, postal operators use this business model to provide financial services. This model is widely present in all regions but is particularly developed in South Asia and the Middle East and North Africa regions whereas Latin America and the Caribbean is the region with the lowest usage of this model.

Business model 3: partnership model – agent for financial service provider (Brazil)

Description

Moving up the business model ladder, we can find Posts which are acting as agents for financial service partners. The main difference with respect to the cash-merchant model is that in the agent partner business model both parties are much more committed to the partnership, since it is in most cases an exclusive one. Sometimes the commitment can take the shape of investment by the financial service provider in upgrading the network or providing cash logistics. It is important to highlight the fact that in this business model the Post usually offers the whole range of products of its partner.

In terms of revenue sharing, the agreement is usually similar to the one in the cash-merchant model and is on a per-transaction fee basis. Sometimes, however, as in Brazil, on top of the fee the bank partner has to pay an entry fee to access the network of the postal operator. The fee can be quite steep, and depends on the negotiation skills of the Post.

Rationale for adopting the business model

Posts often have a large and under-used network which, together with heavy staff costs, represents a fixed cost that the Post must bear. There is little money to upgrade the physical network of branches, increase connectivity, or train staff to offer financial services. By signing an exclusive partnership with a bank, the Post can benefit

from investments by the bank in infrastructure, IT or training. This has been the case in many countries, but the bank will usually ask for an exclusivity contract to justify the investment in its postal partner. This is the case in Mali for instance, where banks are not willing to see their names associated with those of their competitors in the same agent, in this case the Post.

Determinants

The determinants for a partnership model are the exclusivity clause and whether or not the whole range of products – excluding those already provided directly by the Post – are offered.

Usage:

In 22% of countries, postal operators use this business model to provide financial services. Eastern Europe and Central Asia (ECA) together with East Asia Pacific (EAP) are the two regions where this business model is most present. Indeed, in ECA, 47% of countries surveyed use the partnership model compared to 33% in EAP. Interestingly enough, despite having the best-known success story for the partnership model, Latin America and the Caribbean (LAC) is the region where this model is the least present. However, we can expect this to change in the coming years given the UPU work in the region to promote this model which seems to fit to the Latin American postal context, in which historically postal operators did not offer financial services.

Figure 11 – SWOT analysis BM 3



BM 3a: Partnership model with an insurance company to offer services (Morocco)

As we have seen in business model 1d, insurance companies are often interested in building a partnership with the Post to distribute their products. However, in most cases Posts are hired to collect premium payments, and sometimes to pay out claims to the beneficiaries in rural areas, which corresponds to BM 1d. There are few countries where the Post, on top of the above services, also sells the policies to its clients and gathers from clients the necessary documentation for claims (death or invalidity certificates, etc.), because this entails a much more sophisticated system and a more durable commitment between parties.

Morocco is probably one of the best examples of such a partnership model so far. The postal bank (Al Barid Bank – ABB), after working with several insurance partners on different products, decided to concentrate its insurance activities with a sole provider of insurance, Wafassurances, the insurance branch of its main bank competitor, Attijariwafa Bank. The key success factor in this partnership is that Wafassurances has put together a sales force of 10 employees paid by the insurance company to assist ABB in selling the products. Each sales person has a postal region under his or her supervision and works on the ground visiting post offices and training the front-office staff of the Post. Thanks to this involvement from the insurance company, in less than

two years impressive progress has been made, and ABB has already overtaken one of the large private banks which has been a long-standing player in this segment.

BM 3b: Partnership model with a mobile network operator (Tunisia)

Tech-savvy Posts which offer their own postal financial services and are allowed by legislation to do so can consider teaming up with telecommunications companies to develop their postal-led mobile money scheme, or at least their mobile banking solutions for their clients to access their accounts from a mobile phone.

In Tunisia, the Post signed a partnership in May 2012 with Tunisiana, a private operator, to offer mobile financial services. The funds equivalent to the mobile wallets' virtual money are ring-fenced at the Post, just as they would be at a bank in the case of Kenya for example.

BM 3c: Partnership model on a regional basis (India)

In India, the Post has developed partnerships with different banks in different regions. This model allows banks that are interested only in a specific region where their presence is lower to use the postal network in that region. This kind of regional customization of a partnership can prove beneficial. For instance, banks in some countries in the UEMOA (the West African Economic and Monetary Union) have expressed interest in exploring this model for regions where they plan to expand. It can also be used as a pilot by a bank to see whether or not using the Post nationwide is worth the investment.

BM 3d: CM for multiple banks but partnership for savings accounts (United Kingdom)

A good example of this business model is the UK post office. There, the postal operator has signed a special agreement with Bank of Ireland to open accounts and offer that bank's whole range of products. This is a typical business model 3 type of partnership. However, at the same time the Post also offers its cash-merchant services to other banks for transactional services, which corresponds to business model BM 1g.

There are very few cases of this model, perhaps because the main partner for which the Post sells products might be opposed to the Post signing other partnerships for transactional services with its competitors.

BM 3e: Partnership model with a bank (Brazil)

Description:

The epitome of the partnership model is the Brazilian Banco Postal business model. It is the best known and the most successful postal financial inclusion model in

terms of the number of unbanked people eventually entering the formal financial system. Between 2002 and 2011, 10 million accounts were opened in partnership with Bradesco, a private bank which needed a large network to offer its services to increasingly better-off rural areas. However, after 10 years some parts of the model are challenged, in particular the tender process at the end of each contract, which can translate in a change of partner, as was the case on 1 January 2012.

First, a feasibility study was launched in 1997 to assess the various existing business models. Then, in 2000 a project was launched to establish the Brazilian Post as a banking correspondent (agent) capable of reducing the number of unbanked individuals by providing basic banking services through its retail network. This was particularly relevant to the national development goal of financial inclusion, since the majority of these offices were located in rural and remote areas that were not of interest to commercial banks. An invitation to bid was then launched in 2001 and Bradesco Bank was chosen, even though the contract was initially intended to go to several banks. This partnership provided the Brazilian Post with a great learning experience in the financial sector, as well as contributing to the modernization of its network and infrastructure thanks to investment from Bradesco. The cash logistics were taken care of by the bank and not by the Post, which is an important factor given the liquidity challenge usually facing Posts.

In terms of legal and regulatory framework, resolutions 2770/2002, 3110 and 3156/2003 of the Brazilian Monetary Council enabled the creation of the correspondent bank as a legal entity in Brazil. Special authorization was granted by the Ministry of Communication to allow the Brazilian Post to create the Banco Postal. Despite its name, it is worth mentioning that the Banco Postal is not a postal bank but a department of the Post with 14 postal staff working there, and a commercial brand under which the products of a commercial bank are offered by the Post. Banco Postal is not even a subsidiary of the Post; nor is it regulated directly by the central bank, since it does not offer its own services. It is the partner bank which is responsible for all regulatory and compliance issues and which would bear the risk should something go wrong.

During the 10 years of partnership, Banco Postal opened over 6,300 postal bank branches, sometimes in places where there were no banking services at all. In these branches, people could then open accounts, make deposits and withdrawals, check account balances, apply for loans, request credit cards, pay bills, invoices and taxes, and receive government social benefit payments. Recent central bank resolutions 3954 and 3959/2011 expanded the services offered by the correspondent bank, enabling Banco Postal to also work as a currency exchange agent.

Case study 4: When changing partners becomes an issue for financial inclusion – the case of Brazil

On 31 December 2011, Brazil Post ended its first partnership with Bradesco and started a new cycle with Banco do Brasil as the exclusive partner for financial services.

Concluding this new partnership entailed a very detailed and controlled process which started with a public hearing held in February 2011. Having considered the different potential partners, Correios moved forward to an invitation to bid, carried out in May 2011. This bidding process had different characteristics from the first process performed in 2001, since Correios was able to learn from that previous experience.

The differences included the following:

- The contract covers five years instead of ten in the previous cycle
- Service fees were reviewed to ensure a positive profit margin for the Post and hence sustainability of the service
- A percentage charge on deposits performed in the saving and bank accounts was introduced, as well as a fee for each credit card used
- Also, the value of the use of the network of 6,195 branches was calculated, and an additional value for each new branch to be opened was set. The basic value of access to the network was established by an auction in which four bidders took part: Banco do Brasil, Caixa, Bradesco and Itau Bank.

In that tender process, Banco do Brasil outbid Correios' former partner Bradesco. The final outcome was that Banco do Brasil became the new partner of the Post by paying an entry fee equivalent to 1.7 billion USD. It is worth noting that in the first bid, Bradesco paid 300 million USD, or only about 20% of what Banco do Brasil paid 10 years later.

Challenges

Switching to another partner is a significant change in this business model, since the clients belong to the bank and not the Post. When the partners changed, the 10 million accounts that had been opened by the Post on behalf of Bradesco were actually owned by Bradesco. In a preparatory move prior to the end of the contract, Bradesco had pushed forward with the building of bank branches in all the most profitable towns where Banco Postal had opened accounts. Thus, when the transition took place, the Banco Postal clients were redirected to the Bradesco branches and were therefore lost by Correios and its new partner.

Another challenge is the transition process per se. The launch of the new partnership in early 2012 entailed an onerous process which included:

- integration of all IT systems, with 200 IT specialists working solely on the transition;
- training of all 18,000 clerks;
- a marketing plan to advertise the new partnership and facilitate migration of clients;
- improved product offer compared to the one with the previous partner.

The final challenge is pricing. Prices were already high in Brazil during the Bradesco partnership, but they have now grown beyond what most poor people are willing to pay. This is something that will need to be addressed by Correios if it wishes to continue being the leader in this field.

Advantages

Through its new partnership with Banco do Brasil, the Brazilian Post expects to modernize and innovate with the services delivered by Banco Postal. New services in the pipeline for the new partnership include micro-financing, prepaid cards, insurance, mobile virtual network operations, and a new type of Banco Postal "micro-branch" with simplified operations, to be implemented in small locations that share three characteristics: a minimum of 500 inhabitants, basic postal services already available, but no bank branches or agents.

Source: Correios do Brasil

In contrast with Brazil, where contract renewal is an issue, in Colombia the Post and Bancolombia signed a partnership agreement in 2009 based on a one-year contract, allowing the Post to act as an exclusive agent for the bank; this contract is automatically renewed unless one of the parties decides to withdraw. The agreement entitles the Post to offer, on behalf of

Bancolombia, access to the following products: bill collection, savings and current accounts, and insurance. The services are exclusively transactional, which under the current rules means that it is not possible to open accounts at the post office. Out of the 190 post offices belonging to the post, 51 offices are currently offering these services.

In terms of revenue sharing, the Post charges a fee per transaction, and there was no entry fee for Bancolombia; however, the bank installed its software in the pilot offices and trained the staff. The bank also implemented an incentive model for postal employees to promote Bancolombia products. In the second year of the partnership, the Post handled about 50,000 transactions under this agreement, but the figures are growing year on year. On top of its BM 3e type of partnership, the postal operator 4-72 is also in negotiations with an insurance company to provide life insurance products.

BM 3f: Partnership model with a post bank or government savings bank partly or completely independent from the Post

In the last 40 years, but at an increasing pace during the past 20 years, many countries decided to split the historical postal savings bank off from the postal operator in a move to increase transparency or strengthen the role of those savings banks in deposit collection. In several cases, the Post retained part of the shareholding. Cape Verde Post for instance has a 15% stake in *Caixa Economica do Cabo Verde*, the bank that inherited postal savings when it was hived off from the Post in 1995. In other cases as in Kenya, the government has launched a process of transferring part of its shares in Postbank back to the Post. Even in instances where the Post is part of the shareholding, the postal bank did not always use the Post's physical network to offer its services. Usually after some years using the postal network, the postal savings bank decides to create its own network of branches which it can manage directly, and to limit its transactions through the postal network. In some cases, this process culminated in privatization of the postal bank, as was the case in Romania in 2002. In other cases, postal savings banks became fully state-owned savings banks but lost all postal connection, and have desisted from using the network; this is the case of the *Caisse d'Epargne* in Madagascar today. There are, however, cases of continuity, such as in Suriname, where the postal savings bank *Surinaamse Postspaarbank* was spun off from the postal operator in the 1970s but still has only one branch and uses the Post as its sole network.

This sub-business model is not limited to postal savings banks; it also includes partnerships with state-owned savings banks which were created to operate using the Post. This is the case for instance of the Botswana or Lesotho savings banks, which from the outset used the Post to extend their outreach into rural areas.

Business model 4: unlicensed postal financial services (Algeria)

The three prior business models involved a partner in order to provide financial services and, as stated in the introduction to this chapter, the business models are

classified according to the level of involvement of post offices in the delivery of the services. In the case of business models 4 (unlicensed postal financial services) and 5 (licensed postal financial services), the paradigm shifts, and it is the Post, not a financial service provider, which develops, offers and manages its own savings and loan services.

This is important because there is a big gap in terms of regulation, capacity and IT requirements between business model 3 seen previously, and business models 4 and 5. Postal operators tend to overlook this gap.

Description

Many Posts offer their own domestic remittance services, as we have seen above; however, the number offering savings services is much lower. We have counted 47 Posts worldwide offering this service directly.

Usually, postal savings and giro accounts were established several decades ago as an instrument for the government to raise small deposits from rural areas. Through postal savings, lower income populations could have access to safe places to deposit their money and receive an acceptable interest rate for it. For the government this would translate into the deepening of the financial sector, financial stability through an increased savings base, and access to long-term and low-cost financing for investment. It comes as no surprise that in most of the countries mentioned above, governments finance themselves domestically by appealing to small savers, in particular using the postal bank channel.

An interesting fact worth noting is that unlicensed postal savings are usually guaranteed by the state. In countries with no deposit insurance guarantee, this is a non-negligible factor, even though some state guarantees are non-effective given the lack of resources at the government level. Also, in many countries these savings accounts benefit from a preferential tax exemption up to a certain amount. For the unbanked who cannot afford to lose part of their savings interest in taxes, this is a positive factor.

The map below shows that North Africa, West Africa, Southern Africa, Western Europe, South Asia and East Asia Pacific are the regions with the highest postal savings presence.

The most striking case of unlicensed postal financial services is Algeria. In that country, the postal operator, through its postal giro centre, holds 15.1 million accounts out of a total of 24.1 million accounts in banks and the Post. This represents 63% of total accounts in the country, and yet the postal giro centre is not directly supervised by the central bank, since the Postal Act allows the Post to offer these services without a banking licence. As in other countries operating under this business model, there is, however, a push from the government to upgrade the postal financial services into a postal bank, which is the business model 5 that we will explore later.

Figure 12 – Countries with postal accounts



Note: Brazil does not offer postal accounts directly but in partnership with a bank.

Source: postal financial inclusion survey, 2012

Determinants

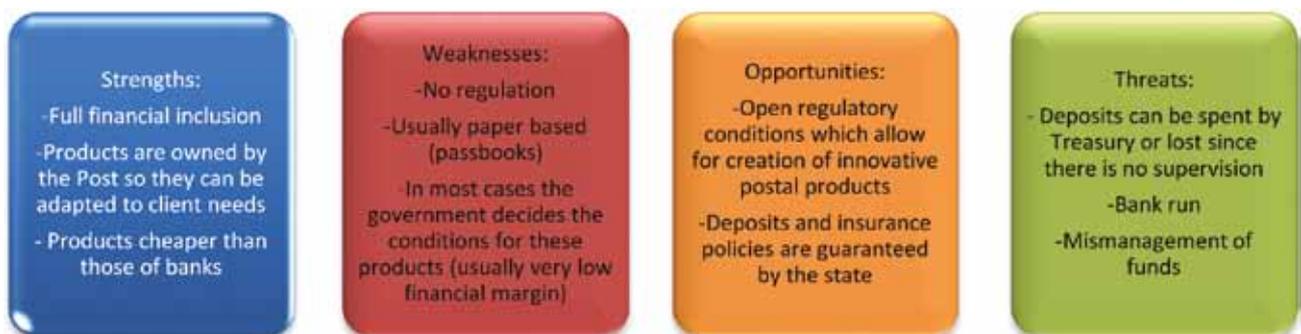
The determinants of the unlicensed postal financial services model are threefold. First, there is the key determinant of whether the Post offers its services on its own. If the services are not offered directly by the Post, then we would be considering a cash-merchant business model (BM 1) or a partnership model (BM 3). The second determinant is regulation: to qualify for this business model, the postal operator must be under the supervision of its line ministry or a postal regulator. If it is under the supervision of the banking supervisor or the central bank, this usually means that a licence was issued – possibly a de facto licence – which would make this a licenced financial service business model or BM 5. And the third determinant is what type of service is offered. If a Post offers deposit and savings accounts

directly without a licence, the sub-business model is BM 4a; if it offers insurance directly then it is BM 4b.

Usage:

In 23% of countries, postal operators use this business model to provide financial services. Sub-Saharan Africa, the Middle East and North Africa as well as South Asia are the regions where this business model is most present. Historical legacy is an important factor, since in most cases, Posts operating under this business model were established before independence following in that sense the British postal savings bank model or the French *centre des chèques postaux* and *caisse d'épargne nationale*. For detailed country by country business model status please refer to the table in annex 1.

Figure 13 – SWOT analysis BM 4



BM 4a: Unlicensed postal giro/checking centre and savings bank

Savings banks are a way for the government to collect deposits; however, there is another type of account which is very useful, namely the giro or postal checking/current account, very common in French-speaking Africa under the denomination *centre des chèques*

postaux (CCP), as in Algeria, Benin or Comoros. The giro centres were established to offer payment accounts, usually for government employees and military personnel where salaries and pensions are received. These are often administered as a department of the Post which reports to the postal financial services division.

In terms of regulation, giro centres are often con-

sidered in the regulation and do not require the central bank or any other financial regulator to supervise them. Indeed, deposits from the CCP are usually housed at the national treasury. The main challenge is when these accounts are unfunded, in other words the amount

of money in the treasury does not correspond to the nominal balance of the accounts. This can be due to the Post spending the money in tough times or to the treasury borrowing money to finance general spending.

Case study 5: Modernizing without becoming a bank – Italy’s unlicensed postal savings

Banco Posta is a division within Poste Italiane (PI); as such, it is not an independent subsidiary as in other countries. PI does not have a banking licence from the Central Bank of Italy. It started offering savings books in 1875 on behalf of the Cassa Depositi e Prestiti, the development bank in charge of collecting savings from the public. Since then, it has diversified and concentrated all its financial products under the denomination Banco Posta. All deposit products, savings and giro accounts are offered directly by the Banco Posta division of PI. Other products such as personal loans, mortgages and prepaid cards have been developed in partnership with Banks or other stakeholders. For insurance, PI created its own subsidiary 100% controlled by the state.

It is worth noting that in 2009, close to 80% of PI’s operating profit came from postal financial services. The diversification that took place in the first decade of the 21st century was both a financial success for the Post and a social success for the underserved populations, who gained access to better financial services, and this process seems set to continue with the creation of PI’s new SME bank.

Even large Posts in some developed countries feel it is not necessary to get a full banking licence in order to develop a savings bank and have decided to use partnerships to offer some of their services. PI does not have the licence, so the only products it can offer to its Banco Posta clients are deposit products. However, it has developed partnerships for all its loan products, and now provides a full range of financial services.

BM 4b: Unlicensed postal insurance

In some countries the Post has developed its own insurance products geared towards lower and middle income populations. However, in most cases the Post offers these products without a specific licence from the insurance regulator because it is entitled to do so under the postal act.

India is the most notable example of this, with the Post offering two basic products: life insurance and rural life insurance. The Post has offered life insurance since 1884, and there are about 20 million postal life insurance policies in India. Rural life insurance was established much later in 1995, and 13 million rural postal life insurance policies are active today.

Business model 5: licensed postal financial services (Morocco)

Description

More and more countries are exploring the possibility of creating a postal bank. This is true in French-speaking Africa, but also in North Africa and the Middle East, and in large emerging economies such as India and South Africa, where the Post already has attained business model 4 for several decades and is providing its own savings services.

With declining mail revenues, Posts need to look for new sources of revenue, of which financial services seem to be the most obvious. As we have seen in BM 1 (cash merchant) and BM 3 (partnerships), developing

alliances with the private sector to offer transactional or more complete financial services is an option. Unfortunately, partnerships are often an additional source of revenue but cannot cover all the costs of maintaining a network. Posts that have postal banks tend to have a larger share of income stemming from financial services. This is the case of Japan with 90% of its income generated by its financial services, France with 23%, and Morocco with 62%²³.

However, creating a postal bank starting from zero is an extraordinary challenge, which can be broken down into several obstacles.

First, there is the regulatory challenge. The criteria for securing a banking licence are extremely hard to meet. To start with, capital requirements are a major obstacle. Many Posts are not in a financial situation that would allow them to gather the necessary capital on their own. Two options come to mind for funding: government, and private sector. The government could step in and capitalize the postal bank. The second option is for the private sector to create a joint-venture postal bank with the Post. In Belgium, the postal bank is a joint venture with the private sector: the Post owns 50% of the capital, with a large banking group, BNP Paribas, owning the rest. The advantage of this capital structure is that the bank brings not only equity but also technical knowledge.

²³ UPU Postal Statistics, 2009. Berne

If capital requirements were not an issue, cumbersome prudential rules would in many cases dissuade Posts from asking for a banking licence at present. Indeed, under the Basel II and now Basel III international principles for banking, banks have to comply with onerous reporting requirements, IT systems requirements, prudential ratios, and risk management practices. In most developing countries, the Post simply does not have the resources for this.

This explains why the UPU usually recommends moving step by step in the creation of a postal bank, and starting by developing partnerships with the financial sector as in business models 1 and 4, learning from them, improving processes, using the partnerships to build staff capacity to handle financial services, and only then launching a detailed feasibility study on the creation of a postal bank.

Determinants

The key determinants in this case are whether or not there is a licence from the financial sector regulator. The determinants distinguishing the different models are the type of licences granted by the regulator. The easiest type of licence to obtain is the microfinance licence, which is rather limiting in terms of financial services offered and access to payment systems. It is mostly used by postal operators to offer loans to keep their clientele. The hardest to obtain but the most favourable is the universal licence. In between, we can find limited-licence post banks.

Usage:

In 8,6% of countries, postal operators use this business model to provide financial services. Sub-Saharan Africa, Western Europe and East Asia are the regions where this model is most present. For detailed country by country business model status please refer to the table in annex 1.

Figure 14 – SWOT analysis BM 5



*In all business models other than BM 4 and 5, postal operators can only be a cash-merchant partner in a mobile deployment. In this business model, since they have a banking licence, they can issue electronic money and hold the ring-fenced funds equivalent to the electronic money issued.

BM 5a: microfinance licence

Given the regulatory difficulties of establishing a full-fledged postal bank, several countries in BM 4a are looking into ways to upgrade their offer without having to go through the costly process of creating a postal bank. Given the need to diversify the product offer into credit to be able to compete with banks, the option of a micro-credit licence is being considered by many postal operators. This is the case in Benin, Togo, Burundi, Bhutan and Laos as well as Tunisia.

For now, these countries have started lending to their clients of giro centres and sometimes those of the savings bank, using the deposits as guarantee. In this case, the regulator does not see a major issue, since the risk is almost inexistent. If clients were not to pay, then the Post could take the money directly from their accounts. However, this strategy does little in terms of financial inclusion, since these people tend to already have access to accounts.

The more advantageous phase is to move from offering micro-loans to the existing clients to offering them to new populations outside the client base. How-

ever, this requires microfinance and risk-evaluation methodologies which postal operators have not yet acquired, and also a regulatory licence as a microfinance institution.

Several countries have filed their licence application with their central banks, so this is probably a business model which will grow substantially over the coming years as an intermediate step between BM 4 (unlicensed postal financial services) and BM 5b and 5c (licensed postal bank). For the most part these countries use BM 4a for the savings and BM 5a for loans.

BM 5b: limited post bank licence

Postal financial inclusion documents often mention postal banks without paying closer attention to the differences within that group. There are two types of licences: a full-banking licence, which we will explore in BM 6c, which allows the postal bank to offer universal banking services just like other licensed commercial banks, or a limited licence. Banking licences can be limited in scope or in terms of client segments. For instance, limited-scope licences imply that the postal bank will be able to offer only a certain number of

products. Usually, central banks allow the postal bank to offer savings but not credit, since this implies money creation and requires more expertise to analyze credit risk. This was the case in Kazakhstan where the central

bank gradually increased the scope of the licence it gave to the postal financial services. In Morocco the central bank assigned a limited licence to work on financial inclusion (see case study 6 below).

Case study 6: Al-Barid Bank, the Moroccan solution to banking the poor in rural areas

In Morocco, as in most of North Africa, the Post plays a key role in providing money transfers and basic financial services to all segments of the population, particularly the rural poor.

Poste Maroc has been the dominant player in the domestic transfer market for several years, and it maintains that status today through its financial services subsidiary Al-Barid Bank (ABB). The “Mandatti express” product offers instant cash-to-cash services within ABB’s network of 1,000 post offices offering financial services throughout the country. In terms of international remittances, Poste Maroc Group is linked with other actors in the postal and banking sector through the UPU’s International Financial System (IFS) and Eurogiro. ABB is also an agent for both Western Union and Moneygram, which spotted an opportunity in its dense rural network.

In 2010, the postal savings activity was converted into a regulated bank – called Al-Barid Bank (Postal Bank) – a fully-owned subsidiary of the Post, which received a limited banking licence from the central bank and had the specific mission of promoting financial inclusion. The banking licence is limited by client segment, meaning that the Post can focus solely on segments C and D of the population (second and third quintiles in terms of income, where A is the wealthiest segment and E is the poorest). Today, it opens 2,000 accounts per day and is considered one of the best examples of a postal bank in the developing world.

In Morocco, official banking levels went from 34% to 47% of the population when the four million postal account holders became postal bank clients and therefore entered the statistics in 2010–2011. Since then, the postal bank has been opening 400,000 accounts per year, and now has more than six million accounts. Al-Barid Bank is the main reason why banking levels in Morocco increased to 52% in 2012. The combination of a strong position in the domestic and international money transfer market with a specific mission to bank the lower income segments of the population has been quite successful, not only from an inclusion point of view but also for the sustainability of the institution. Indeed, in 2009 financial services represented 62% of the annual revenues of the Post.

Given its much larger network and adapted products, Al-Barid Bank has become a strong competitor to the two large banks focusing on the market of Moroccans residing abroad: Banque Populaire (known as Chaabi Bank outside Morocco), and Attijariwafa Bank.

BM 5c: universal post bank licence

The most complete model in postal financial inclusion is a post bank with a universal licence. France has actually moved from a model 5b (limited banking licence) to a model 5c (universal post bank licence), thanks to which it is now permitted by the Banque de France to offer the full range of products, including loans to companies.

China’s postal bank is the world’s biggest, and has secured a universal post bank licence. It holds more than 870 million accounts, is the fifth largest bank in China by asset size, and is by far the largest banking network. Recently it developed its capacity to finance small and medium enterprises (SMEs) to complete its range of products. Today it has become a market leader in the SME segment according to a publication by CGAP and the World Microfinance Forum.

In Gabon, the Post also received a full bank licence and is set to launch operations in the summer of 2012.

There are very few cases of this sub-business model, given the excessive costs of implementing it. Only 4.8% of respondent countries have a universal postal bank licence. However, countries that have such a

bank have a larger share of their revenues coming from financial services than for countries in models presented earlier.

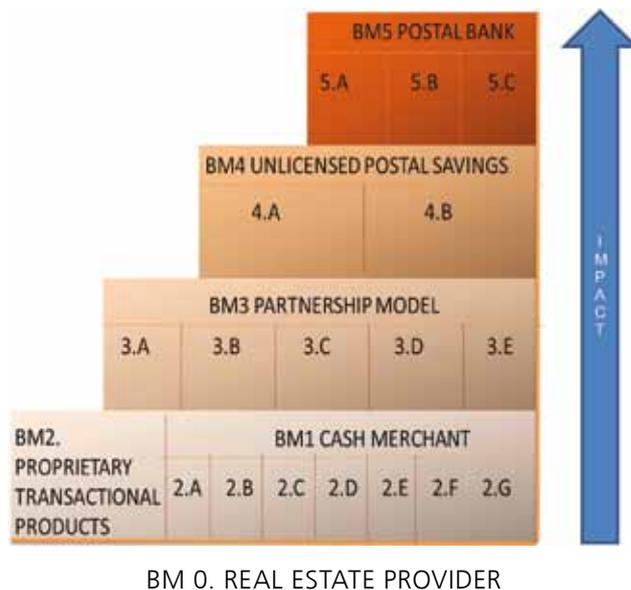
A global trend has emerged among giants of postal financial inclusion such as India (240 million postal accounts), Algeria (15 million postal accounts) and South Africa (6 million postal accounts) and also among smaller players such as Madagascar or Mauritania, whereby postal operators seek a full-fledged banking license. From a financial inclusion standpoint this trend is a positive one since it goes in the direction of a better scrutiny on postal financial services and towards the modernization of the services offered in accordance with banking regulations. However, countries which have decided to move in that direction must know that this is not an easy path. Our calculations based on some country examples estimate that for a middle-income country which already offers account-based services under business model 4, it would cost about 20 million dollars and take at a minimum 5 years to set up a postal bank with a universal license. Countries interested in following this path should therefore be prepared to invest.

The UPU publication on the Moroccan success story provides some of the lessons learned in the process of creating of Al-Barid Bank²⁴. These can be useful to avoid pitfalls in the implementation a properly working postal bank.

Business models – conclusions

As we have seen previously, there is a wide diversity of business models worldwide, and these can be subdivided across several dimensions: who provides the service, the type of partnership, and the openness of licences, among many others. Most Posts do not stay in one business model, but actually try to move upward on what seems to be a business model ladder. However, in most cases Posts move upward in the business model scale without eliminating the previous stage, which is why it is more of a business model staircase than a ladder (see figure below). Posts that have never offered financial services usually start at the bottom with business model 0 (real estate provider) or business model 1 (cash merchant) and then move up to the next level without leaving behind the previous one. There are very few cases of Posts moving back, unless there is a strong political decision or complete failure.

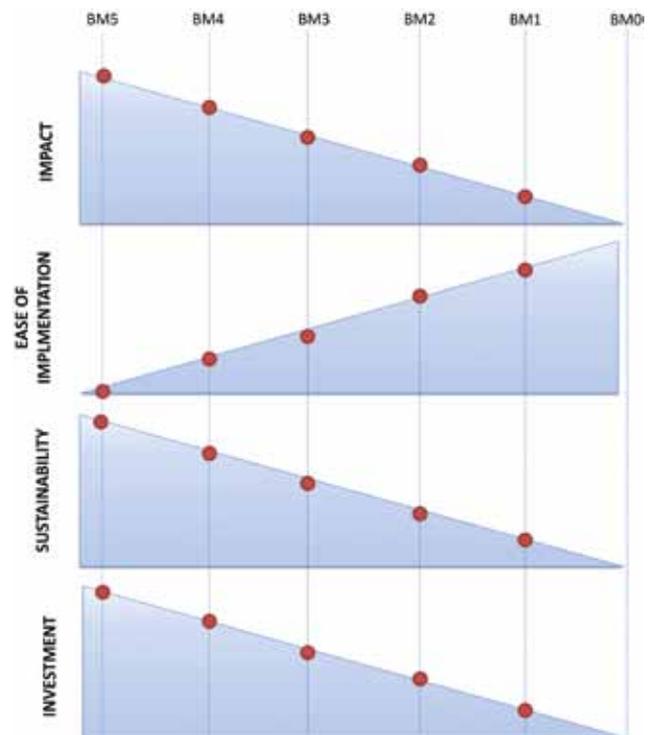
Figure 15 – Postal financial inclusion ladder



Postal operators should be cautious to ensure they meet all the necessary requirements before choosing a business model. Picking a business model which is not adapted could be risky and could result in failure and potentially in political upheaval, especially when savings are concerned. For instance, in the case of Azerbaijan, the Post tried to skip steps by moving from BM 1 (cash

merchant for G2P and remittances) to BM 5 (full licensed postal bank); unfortunately, to date, the results have not lived up to the expectations. The resulting framework tells us that to launch a postal bank, a postal operator operating as a cash merchant needs to start by becoming a partner with a bank to offer all sorts of services, and not only transactional ones, and can then launch its unlicensed postal savings activity if permitted by law, and could eventually seek a limited postal bank licence, if it makes sense from a business and policy perspective and if conditions are met.

Figure 16 – Postal financial inclusion trade-off chart



The chart above compares the business models in terms of the characteristics related to their implementation and potential results. It is a visual representation of the existing trade-offs between impact and investment and between sustainability and ease of implementation, depending on the business model used. It is important to clarify that by impact we understand the possibility of a client to be fully included in the continuum of financial services which starts with transactional products typically those offered in the first families of business models (BM1 Cash-merchant and BM2 Own remittances). What we see here is that the first types of business models are the easiest to implement and where the least investment is needed, but deliver a low impact in terms of financial inclusion because they relate mostly to transactional products and in terms of long-term sustainability of the Post. Even in the case when the Post acts as a cash-merchant for a bank, the services offered by the post will be useful only to those who already have accounts. The same applies for insurance in the cash-merchant model. Instead, the models where the

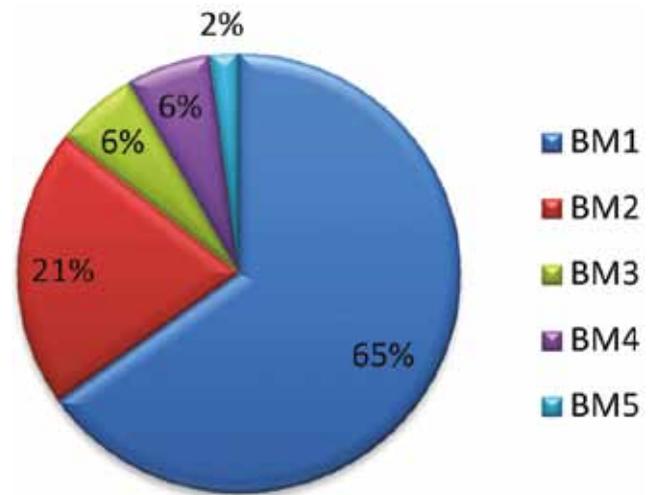
²⁴ Berthaud A., *Inclusion financière postale au Maroc: les facteurs de succès dans la création d'une banque postale*. UPU, 2012. Executive summary available in English. Pending publication.

Post is more closely involved and offers a wider range of products, such as BM 3 (partnership), BM 4 (unlicensed financial services) and BM 5 (postal bank), deliver strong financial inclusion results (opening of accounts on behalf of the bank or for the postal savings, subscription of insurance products) and long-term viability for the Post if well managed, but require heavy investments and are hard to implement. This can be taken as a roadmap for postal operators to decide on which business model is best to adopt for their diversification strategy depending on their local conditions.

By isolating each country according to the business models it uses, we can confirm the theory above. Indeed, our numbers show that the more advanced the business model, the less it is used by Posts worldwide. Only 2% of total models are BM 5 (postal bank), while two thirds of business models used are from the cash merchant family (BM 1). The graph below shows the business models according to their relative usage by Posts.

For the purposes of bridging the information gap and for postal operators and governments to be able to understand what other postal operators are doing and potentially to learn from them through exchange visits, this report has classified each of the countries according to the business model typology. In annex 1, we present the results in a table covering 139 countries. A summary table at the end shows the percentage of countries using the different business models.

Figure 17 – Business models used for postal financial inclusion



Source: postal financial inclusion survey, 2012

III. KEY ISSUES IN POSTAL FINANCIAL INCLUSION

Based on on-going fieldwork and the general knowledge base of the UPU, we have extracted a list of key success factors and challenges facing Posts which we call key issues in postal financial inclusion. In this section, we analyze the results of the questionnaire in the light of these key issues. For some success factors, we have statistical data available from our questionnaire, while for some more qualitative factors such as political will, telephone interviews were organized with postal operators to fill the information gap. For each of the success factors identified there is a corresponding challenge. For instance, if the upgrading of IT systems is a key success factor, the lack of automated systems is probably the strongest challenge for postal financial services development in a country. For this reason we have decided to combine success factors and challenges into this single section on key issues in postal financial inclusion.

Of course, given the huge diversity in postal financial inclusion, it is almost an impossible task to synthesize, across regions and income levels, the issues which are to be considered when analyzing the postal operator's degree of preparedness to become a spearhead of financial inclusion. There are, however, some common factors that have been proven to lead to success, and these are also challenges facing Posts, specifically in developing countries.

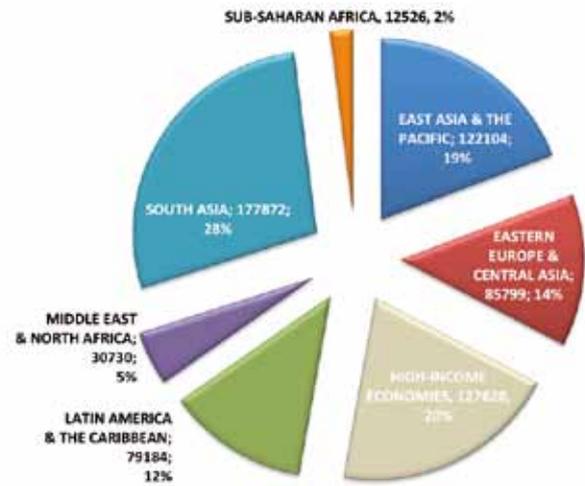
A. The Network

For the development of partnerships in financial services or to offer those services directly, the network is a key factor. Having a network that combines capillarity across urban and rural areas and at the same time is well connected would be the ideal situation for a postal operator to become an agent for a financial institution or to provide its own financial services to a wide range of the population.

Posts benefit from a huge network of access points

totalling 662,000 outlets worldwide. As can be seen in the graph below, South Asia and East Asia-Pacific are the best performing in terms of number of outlets, and concentrate a large proportion of postal contact points in the world. On the other hand, Sub-Saharan Africa is poorly served in terms of post offices with only 2% of total postal contact points and a share of world population close to 12%.

Figure 18 – Share of the global postal network per region

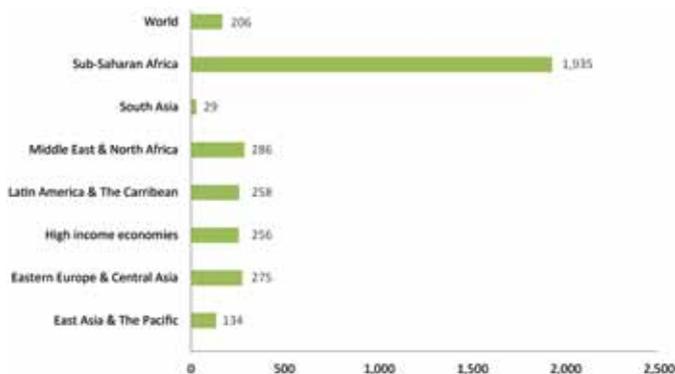


Source: UPU, 2011²⁵

1. Capillarity

The UPU does not set a standard for postal density; however, on average globally there is one post office per 10,000 inhabitants. If we compare postal density in terms of inhabitants across continents as per figure 19, we can observe great discrepancies which reflect the postal development in each region. Postal density can be expressed in population terms, i.e. number of post offices per inhabitant or in area terms, i.e. number of post offices per square kilometre, which gives an idea of geographical proximity.

Figure 19 – Postal density by area (average area covered by a permanent post office in km²)



Note: Even though this data is based on official UPU statistics, the regions in this paper are those used by other international institutions active in the field of financial inclusion such as the World Bank, CGAP and AFI in order to facilitate comparisons with other research. This can explain differences with respect to official UPU data.

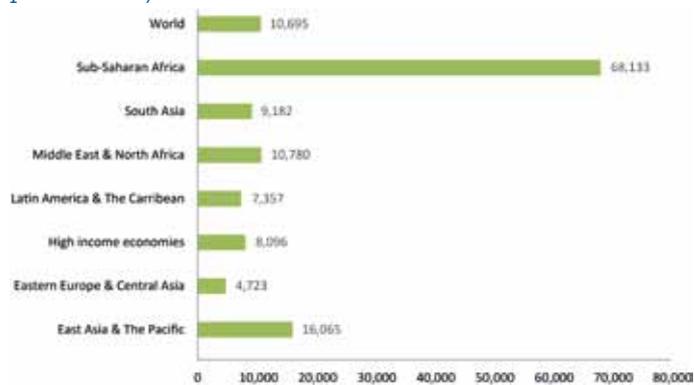
Source: UPU, 2011 and World Development Indicators, 2010

²⁵ A slight modification to the UPU data has been made to reflect changes in the number of post offices in China in 2010.

In terms of postal density in square kilometres, the world average is one post office per 206 km² in 2010. The best regions by far in terms of postal density are the South Asia region (SA – 29 km² for each post office) and to a lesser extent East Asia-Pacific (EAP – 134 km² per office). In these regions the density is much higher than in high income economies (256 km²). Meanwhile, Sub-Saharan Africa (SSA) is the worst performer in terms of postal density by area (1,935 km²). All other regions are surprisingly homogeneous, in the bracket between 250 and 280 km² covered by a single permanent post office. However, regional averages can be skewed by outliers. In the case of Sub-Saharan Africa, in large countries of Central Africa with undeveloped postal

networks, a post office can cover huge areas. This is the case of Chad (30,000 km²), Central African Republic (25,000 km²) and the Democratic Republic of Congo (19,500 km²). Meanwhile more affluent countries such as South Africa or Kenya have postal densities well below 1,000 km². South Asia is an exception to this. Indeed, in that region distribution is impressively constant throughout the region. In India, a post office covers 21.20 km², in Sri Lanka, 13.85 km², in Bangladesh 14.57 km², and in Pakistan, the country with the highest average, the figure is still quite low at 66.15 km². This homogeneity can be partly explained by the shared history of these countries.

Figure 20 – Postal density by inhabitants (average number of inhabitants served by a permanent post office)



Source: UPU, 2011 and World Development Indicators, 2010

In terms of inhabitants, the picture is a little different, with large but less populated regions such as Eastern Europe and Central Asia (ECA) having the best density levels in population terms, with fewer than 5,000 people being served by a post office. Sub-Saharan Africa is not performing as well, with 68,000 people for each post office, which is more than six times the world average (10,695 inhabitants per post office). Again, this average is largely skewed by outliers although networks in sub-Saharan Africa are relatively underdeveloped due

in particular to the financial issues that Posts have been facing in that region.

Capillarity refers not only to the fact that there are many branches but also that they are well spread out in the territory. Unfortunately, it is hard to assess the number of people living around a post office, but in future studies, it will be worth including the percentage of the population within a radius of 10 km of a postal access point, for instance, and comparing it with other providers.

Figure 21 – Number of post offices compared to number of bank branches by region and income level

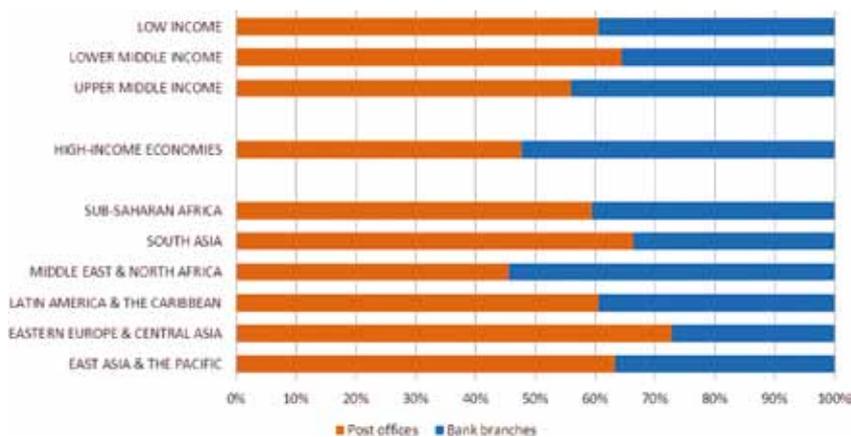


Source: UPU 2011, IMF 2010

The figure 22 shows us that in all the developing countries groups (low, lower middle and higher middle income countries) the physical infrastructure of the Post is much larger than that of banks. In that figure, the post office network refers to all permanent post offices including those which are not staffed by the postal operator. In lower middle income countries, the difference is massive. Indeed, for those countries, the postal operator has a network which is 50% larger than that of all the bank networks together. India Post, with its 155,000 offices, accounts for a vast majority of those contact points. It is important to highlight that one single network: the Post has more contact points than all the banks put

together. In many countries the banking network is not integrated, since national retail payment systems that would allow the different banks to talk to each other are not implemented everywhere. Capillarity appears to be a comparative advantage for Posts when compared to other financial service providers that could benefit from using the postal network to offer their services in partnership. In all field visits led by the author in the context of this project, in Ethiopia, Mali, Kenya, Uganda, Tanzania, Laos, Morocco, Brazil, the postal network was always the key factor that interested financial service providers to partner or consider partnering with the postal operator.

Figure 22 – Average number of post offices compared to number of bank branches by region and income level



Source: UPU 2011, IMF 2010

In regional terms, postal networks are more present than banks in ECA, SA, EAP and Latin America and Caribbean (LAC), with a particular dominance of the Post in the ECA, SA and EAP regions, where the Post has a network 50% larger than that of all banks put together.

In the Middle East and North Africa (MENA) region, the number of postal contact points is slightly below that of the banking network (45% of contact points). In Africa, the Post has a very weak network, with 12,526 permanent post offices south of the Sahara. Meanwhile, the financial sector in SSA had not been particularly interested in the retail segment until recently and therefore has not expanded its brick-and-mortar branches as widely as in other regions. This is reflected in the fact that there are fewer than 9,000 bank branches in the region, only about 15% of the bank branches in a region such as LAC, which has a similar size and a slightly lower population. In most of Sub-Saharan Africa, the bank network is not dense at all and is mostly concentrated in urban areas. This brings us to another dimension of capillarity: presence in rural areas.

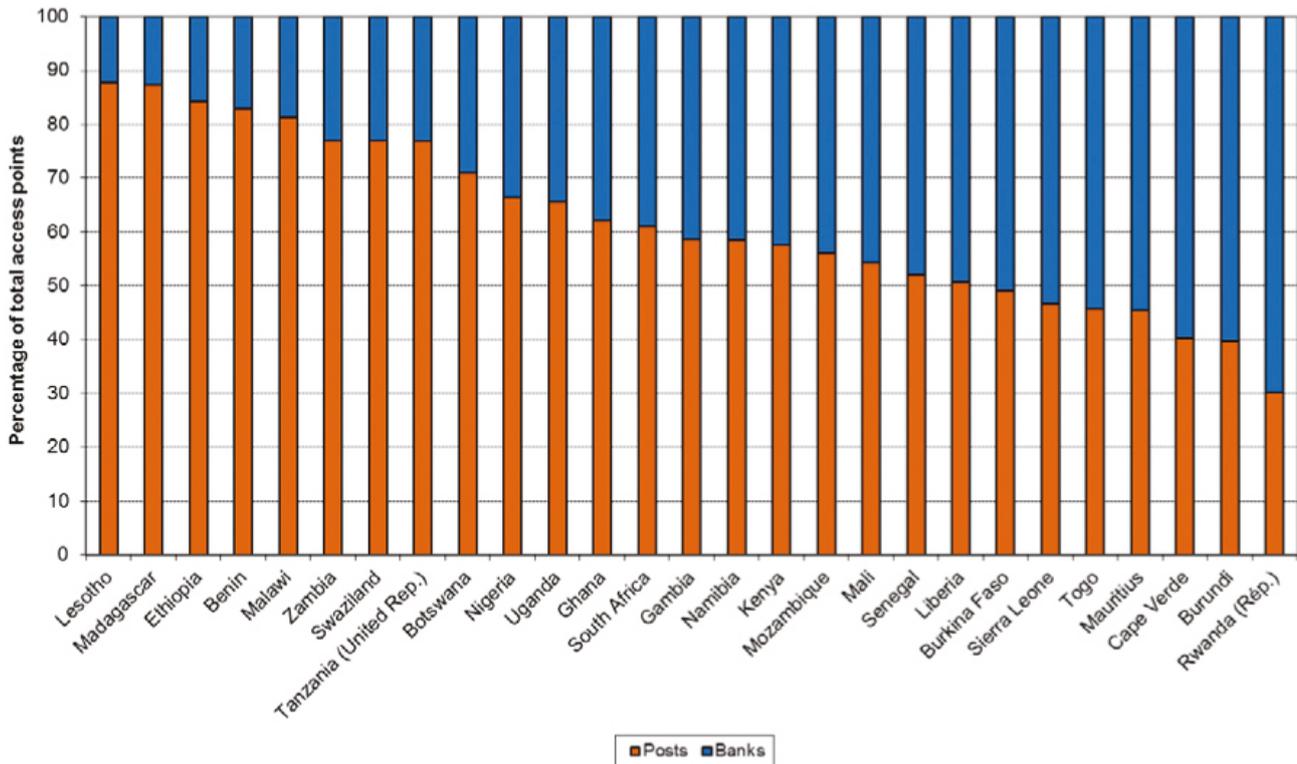
The factors evaluated above correspond to density, but if banks are mainly concentrated in urban areas, they can have an acceptable density but still be underperforming in terms of coverage in rural areas. This is typically the case for sub-Saharan Africa, where concentration of bank branches in the capital is often

close to 50%, as can be seen in the graph above. On the other hand, a UPU study conducted by Ansón and Toledano has shown that 80% of post offices in SSA are concentrated in rural areas outside the three largest cities²⁶.

Despite the strong position of the postal network, there is a phenomenon which should be mentioned, namely the closing of offices in what we call the least developed Posts in terms of postal financial inclusion. There were 15,000 post offices in Sub-Saharan Africa in the year 2000; 12 years later there were 12,600 post offices. This was mostly due to postal operators' financial losses, which governments try to cope with by decreasing costs and closing post offices instead of finding ways to increase revenues, such as diversification into financial services. It is important to underline, however, that in most developing countries, governments are facing strict budget limitations. They have to make drastic choices in terms of budget spending, and the postal sector rarely appears as a key priority in the short term when compared with education or health for instance. Only a long-term strategy to strengthen the postal sector, included for instance in the financial inclusion agenda of the government, can secure necessary funding to turn around the historical postal operator

²⁶ *Postal Economics in Developing Countries: Posts, Infrastructure of the 21st Century?*, Joëlle Toledano and José Ansón (ed), UPU, 2008

Figure 23 – Banks vs. postal networks in rural Sub-Saharan Africa: distribution of access points by country



Source: UPU Postal Statistics, 2011 and Manuel Orozco, Sending money home to Africa, IFAD, 2009

and revamp its network. Line ministries and ministries of finance should budget realistically for the reform, since these can be quite costly but if properly done can have tremendous impact in terms of financial inclusion.

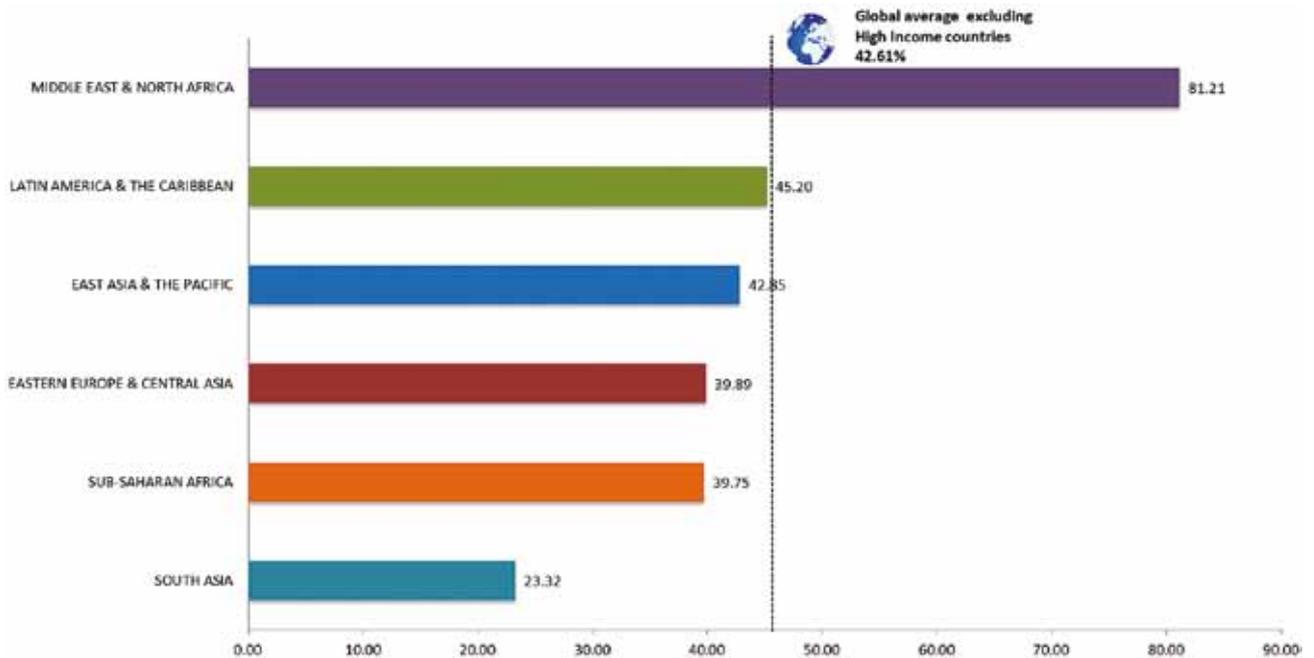
To conclude on capillarity, the postal network is not only denser; it is also better distributed in rural areas than all of the bank networks put together, but it needs investments to bring it up to speed and to be able to serve as a platform to deliver services in rural areas. This is an area where governments and donors can work together.

2. Connectivity

For postal financial services, a network is worth as much as the level of connectivity among its contact points. If you have a large number of contact points but these points are not connected among themselves, or there is no process to channel the information up and down from headquarters to remote post offices, the network is of little use. Today, technology enables us to connect remote areas with relatively affordable investment. The cost of basic connectivity in rural areas really depends on the telecommunications infrastructure and regulatory framework of each country. Investment may be limited – for instance, a few dishes if one opts for satellite connectivity as in Gabon, or GSM-enabled POS terminals

in Kenya, 3G flash drive modems for computers such as in Laos, or Cell-phones in Tanzania for the Tanzania Postal Bank Popote product accessible through the post offices– but recurrent costs may be high, in particular in the case of satellite connectivity or GSM modems. In some countries, the national backbone is still managed under a monopolistic framework, and leasing capacity can be expensive. So a first step towards the development of postal financial inclusion can in some cases be to increase the connectivity of the network. In the case of a partnership with a financial services provider, without connectivity, when a postal operator offers its network to a partner, it is offering a real estate package, not a functional network to deliver its products on. On the other hand, if the postal operator wants to offer its financial services on its own, then the connectivity would be an important improvement, since proper quality of service and risk management would benefit from the use of an automated system for deposits, loans or insurance. Connectivity is particularly important for savings and other types of deposits where all post offices offering the service must be able to obtain a real-time position of the accounts to avoid operational risk in the form of a client withdrawing more than he or she has in the account.

Figure 24 – Percentage of post offices connected to an electronic network



Source: UPU, 2011

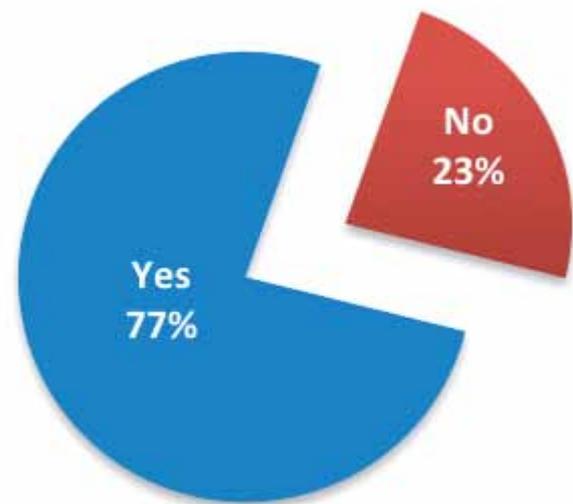
The graph in figure 24 shows that approximately 43% of permanent post offices in the world are connected to an electronic network. It is worth highlighting the lag in this regard of South Asia, where only 23% of post offices are connected. In fact, in India, the largest country by far in the region, only 8% of post offices are connected to the Internet. This situation should be reversed rapidly, given the strong investments that India, Pakistan, Bangladesh are making in automating processes and increasing connectivity outside the main cities. The other outlier worth noting is the Middle East and North Africa region, where connectivity is much higher than the world average.

3. Full use of the network

a. Under-utilization of fully equipped post offices

Unfortunately, most postal operators do not use the totality of their network to offer financial services. The graph in figure 25 shows that 23% of postal operators offering financial services do not offer them in all of their offices. Unfortunately, the offices where the services are not offered are often the most rural and isolated ones, where the need for financial services is stronger given the lack of other financial service providers. This is therefore a major challenge facing the Posts. Increasing utilization of the network starts by connecting those offices to the electronic network and training the staff to offer those services. This can be complicated because these offices are often one-man outlets, where the postmaster performs all functions. Therefore, sending the postmaster for training means the post office has to close completely.

Figure 25 – Utilization of the whole network



Source: postal financial inclusion survey, 2012

The main reasons presented by respondent countries to explain the under-utilization of fully equipped post offices are: security and connectivity (Jamaica), low foot traffic (Mozambique, Nigeria, Sao Tomé and Príncipe), logistical problems (Ghana), and the huge cost of investment in rural areas (Tanzania).

Only about half (46%) of sub-post offices, also called postal agents, in the world are used for financial services. Since agent networks are among the deepest reaching in terms of rural populations, it seems there is a strong opportunity for growth in the number of access points for the rural poor. However, postal agencies are often the least connected part of the network, the least equipped, and the one where computer literacy is the lowest. Even in countries with appropriate levels of modernization of branches such as Brazil, postal agents are still under-equipped. This is slowly changing as postal operators start to use all of their own post offices; the next phase is using postal agents. For instance, in the case of Brazil, after connecting and offering financial services in its 6,000+ offices it has launched a new project to also use its 8,000 postal agents, which are mainly small shops in far-flung areas, not only to receive mail and sell stamps but also for financial services.

The challenge of using the whole network may soon become an opportunity for Posts.

Figure 26 – Postal agents or sub-post offices offering financial services



Source: postal financial inclusion survey, 2012

Case study 7: Utilizing the network: use of postal agents in Brazil to extend coverage of financial services

Brazilian Post's community branches are an outsourced service unit operated through an agreement between the Brazilian Post and local authorities to offer basic postal services (simple letters, telegrams, uninsured parcels). With the implementation of Banco Postal in these community branches, Banco do Brasil will establish contact points that provide all basic bank transactions such as bill payments, verification of account statements, and opening of bank accounts. This means that postal agents, also called sub-post offices, will be upgraded to offer loans, savings and deposit services on behalf of Banco do Brasil.

Source: Correios do Brasil

B. Staff

After the network, another important strength for a Post lies with its staff. Postal staff can be a key asset or liability for a Post. Postal staff tend to have fewer benefits than bank staff, who typically in a developing country context (for instance in Uganda) enjoy some of the best employment benefit schemes in the workforce, even more so than civil servants. When staff are required to perform banking transactions, this difference in benefits with respect to bank employees is a topic of concern. This has been a major issue in some of the most successful models such as Brazil or Morocco where employees and unions launched a series of legal actions and strikes to claim the same benefits as their banking counterparts. This issue is key and should be addressed by the postal operators early on before launching any new venture

in that direction. However, in some countries such as in India, the situation is different, since working for the Post is synonymous with employment stability and still holds an aspirational value. In addition, in India, for clerks and administrative staff, salaries are higher at the Post than in the private sector, although this is not the case for middle and top management. The difficulty to attract and failure to retain talents is a key issue not only for banking activities but also for the IT and Finance departments which need highly specialized employees and are essential for a postal operator to function appropriately.

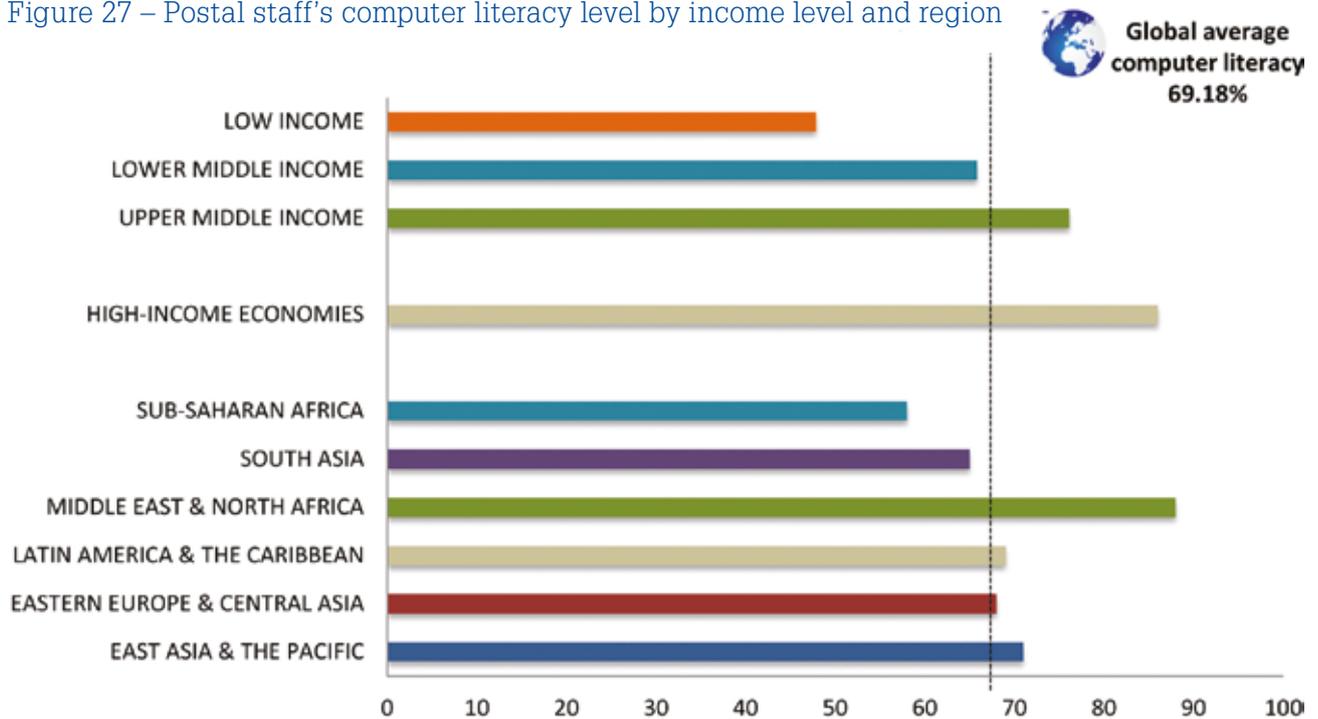
In terms of staff, there are nine important indicators to evaluate when determining a Post's capacity to deliver financial inclusion which we will see in detail below.

1. Computer literacy levels

Today's financial services are operated in real time for the most part; therefore, the quality of services will gain from the ability of tellers and front office staff to use a computer. This is why the computer literacy indicator is so important: it gives an idea of how capable the Post is of launching new products which require automation, be it directly or in partnership with a financial service provider. For this report, computer literacy is defined as the capacity to use basic programs such as Word, Excel or the teller module of the management information system used by the Post. The level of qualification of

staff, for which we use computer literacy as a proxy in this document, could be an important factor in a partnership negotiation. Younger people tend to be more technology-savvy, and also better at customer service. The Colombian postal operator has an 80% computer literacy rate as a result of a policy that requires a candidate to be computer literate in order to be hired for any position. This was helpful in launching the partnership with Bancolombia to offer the bank's service over the network. Same was done in Uganda two years ago as part of the restructuring process to make Posta Uganda a trusted service provider.

Figure 27 – Postal staff's computer literacy level by income level and region



Note: the graph above shows self-reported computer literacy rates among all postal staff, not only front-line staff. However, in some instances there may have been some confusion, and countries may have responded on the basis of the computer literacy of their front-office staff.

Source: postal financial inclusion survey, 2012

It is worth highlighting MENA's strong performance in terms of computer literacy. Indeed, the MENA countries fare just as well as developed economies on this indicator. However, among all key regions, MENA is the region with the highest under-representation in the present survey. Respondent countries in MENA tend to be the best performing and most developed ones in terms of postal financial services (Morocco, Tunisia, Lebanon, Yemen for instance) whereas the least developed ones did not respond. This introduces a bias which can explain this excessively positive result in terms of computer-literacy. The other regions obtain more or less the same numbers, with computer literacy at between 60 and 70%, and sub-Saharan Africa a little behind the others with 58%.

However, with the advent of POS and mobile devices to perform transactions, the need for computer literacy is reduced, since most tellers at the post office

will not need to be fully computer literate to offer financial services using those devices; they will, however, need to have some basic technology savvyness. The use of non-computer based access points in rural areas is therefore not only a benefit for the customer but is also more adapted to the existing infrastructure and skills of the postal staff in those areas. This is the case in Tanzania, where postal staff in unconnected post offices can operate the Tanzania Postal Bank's mobile banking service and GPRS-enabled POS terminal after one day of training.

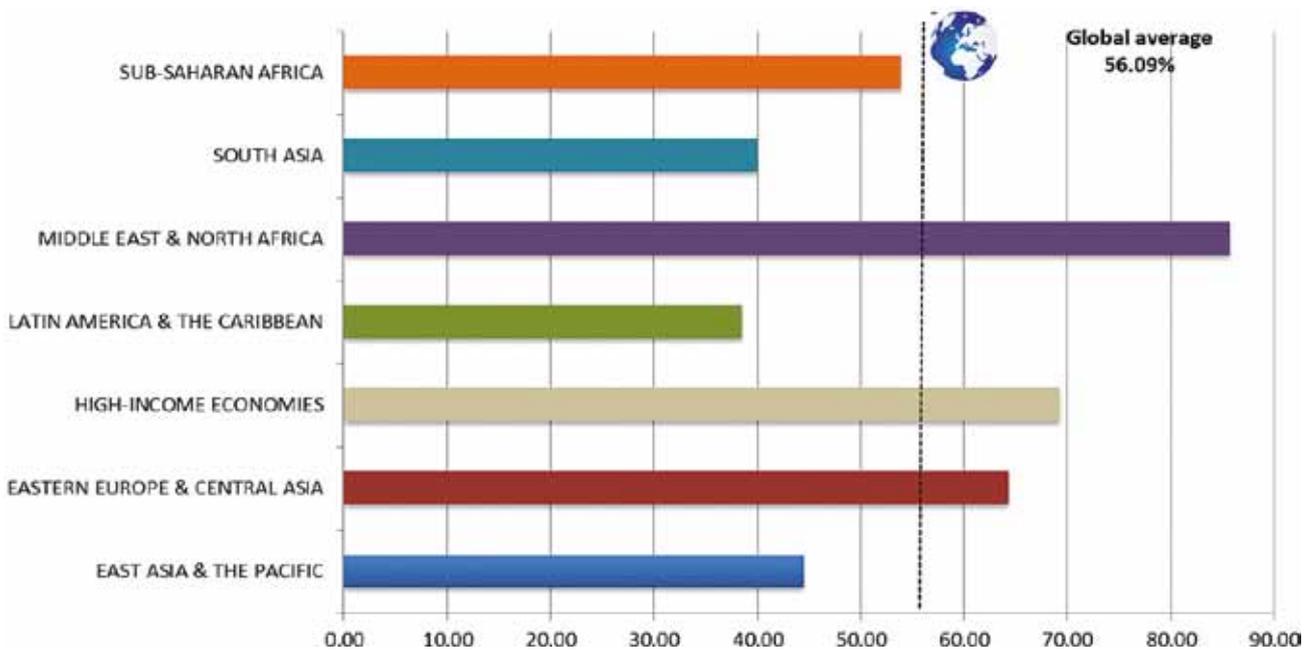
Computer literacy of front office staff seems to be a basic first step for financial inclusion; however, another factor worth considering is the skill level in the IT department. It is important to employ a sufficient number of computer science graduates, but in practice this criterion is rarely met: such skills are difficult to attract and retain within postal organizations, as the

salaries are not competitive when compared with the private sector. Yet these skills are key to making proper investment decisions, and especially for applications development and interfaces with the core banking system of the bank partners. A concrete example can be found in the case of Bangladesh, where, thanks to a good team of in-house developers, the postal operator was able to set up its own platform – the Electronic Money Transfer System (EMTS) – to connect post offices through a mobile network.

2. Training

The quality and number of training courses that staff undergo is an important factor in whether an operator is in an adequate situation to offer financial services. Usually, Posts in the developing world train their staff during induction at the beginning of their career. Many Posts have developed training facilities to offer continuous training to their staff to update their knowledge over the years. Some go further still, and offer specialized training courses for financial services; this is the best case scenario.

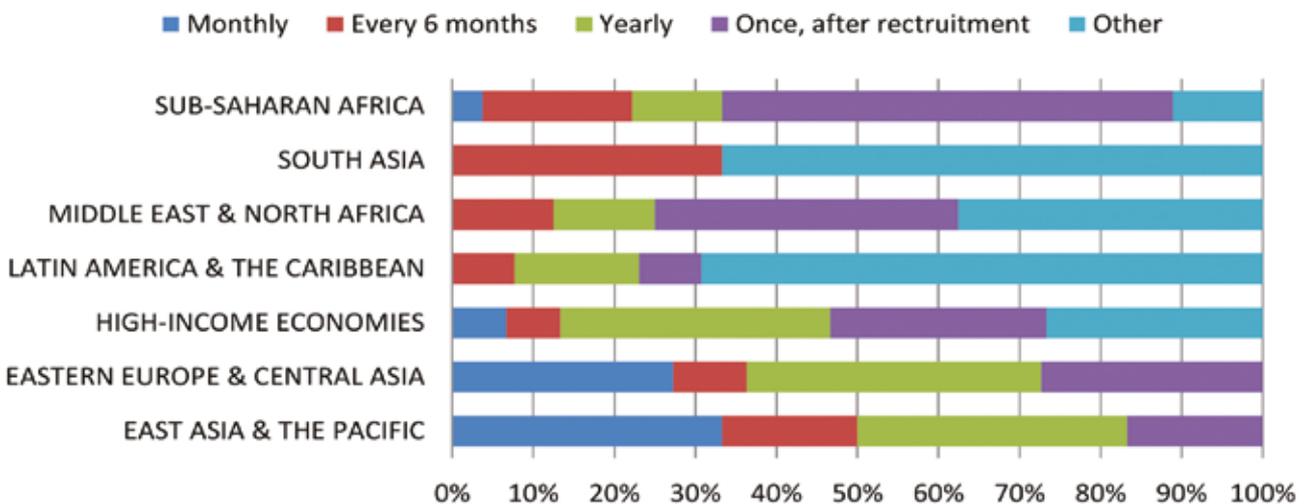
Figure 28 – Training in postal financial services (PFS)



Source: postal financial inclusion survey, 2012

From figure 28 above, we can see that among the developing regions, SSA, ECA and MENA place strong emphasis on training in postal financial services. This is consistent with the importance of postal financial services in each of these regions.

Figure 29 – Frequency of training in PFS



Source: postal financial inclusion survey, 2012

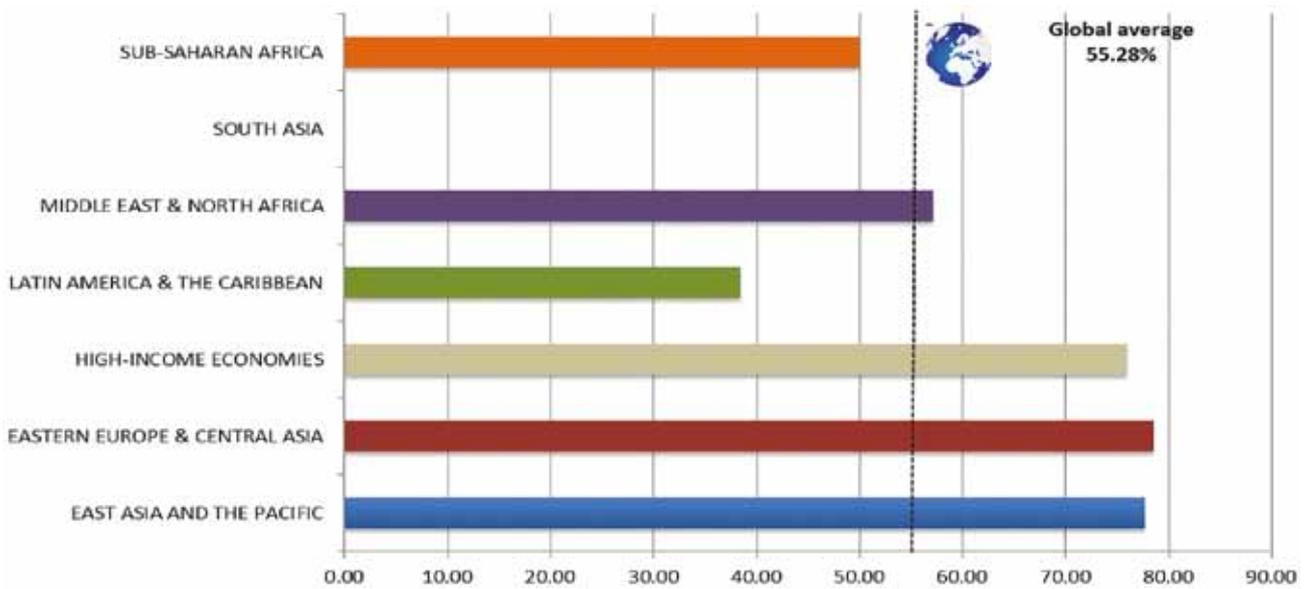
In EAP and ECA, the frequency of training is very high, with almost one third of Posts offering monthly training in postal financial services. In SSA, the frequency of training is quite good (33% of Posts schedule training in PFS at least once a year), given budgetary constraints in most of these postal operators. This reinforces the idea that PFS are important for postal development in this region. Training levels in Latin America are very low, but this comes as no surprise since this region is under-developed in terms of postal financial services offering.

The main surprise is MENA, which fared very well in other staff indicators but lags behind most of the

other regions in terms of training frequency, with only 25% of Posts organizing training at least once a year.

An issue that has been observed in countries in Sub-Saharan Africa, is the case of staff that have been trained in offering specific financial services by a partner institution and are then shifted to other post offices. This shifting is used as an administrative way to avoid staff entrenchment in one place which could lead to fraud and responds mainly to a lack of internal control mechanisms. These practices derive in strong frustration among partners which have invested directly in training the staff with little returns since newly moved front-office staff are not aware of the partner’s product offering.

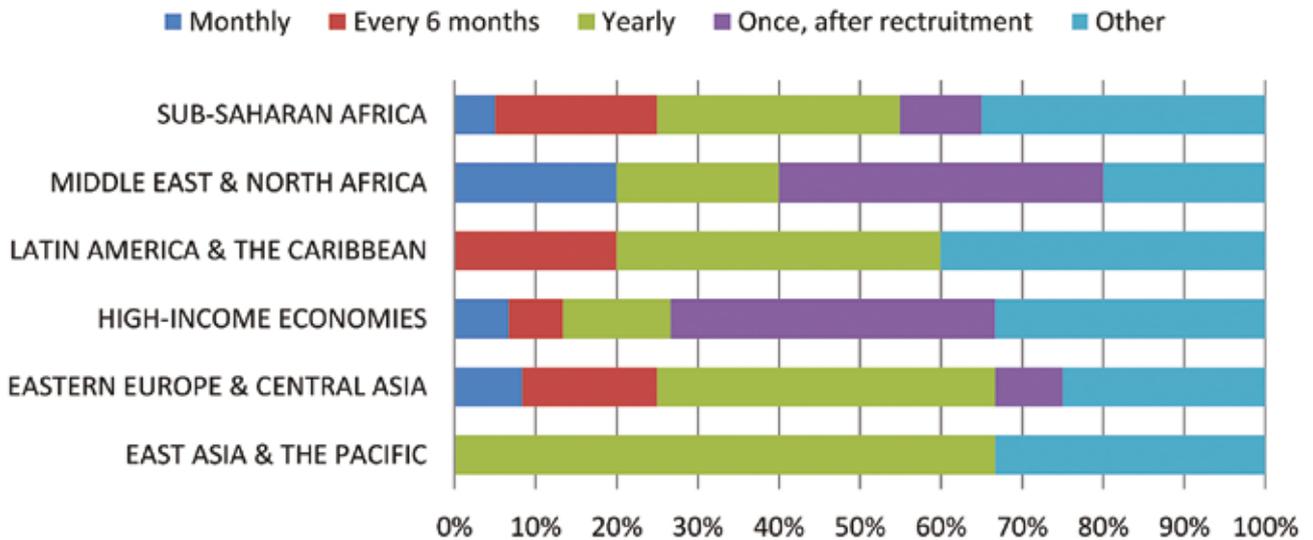
Figure 30 – Training in AML/CFT by region



Note: In South Asia, respondent countries have AML/CFT programmes but did not answer the question on AML/CFT training, which explains the blank.

Source: postal financial inclusion survey, 2012

Figure 31 – Frequency of training in AML/CFT



Source: postal financial inclusion survey, 2012

3. Financial incentives for staff

If financial services represent an additional responsibility for front-office staff, or if a Post is keen to develop a new product, or is simply interested in motivating its employees, then it is important to consider the positive role of financial incentives. A clear example of the role of financial incentives as a success factor comes from South Asia. The Posts of both Bangladesh and Pakistan recently introduced mobile-based financial services. According to a CGAP analysis, in Pakistan the service had limited success; meanwhile, the EMTS developed in house and launched by Bangladesh Post has been quite successful, in particular thanks to a set of incentives offered to postal staff in order to promote the product and foster early adoption. In concrete terms, this translates into commissions paid to the postmaster in Bangladesh for each transaction made in his office²⁷.

In Colombia, the postal operator has implemented a scheme of incentives, aimed at reducing staff turnover, to motivate personnel to offer the Bancolombia products and to facilitate the required adjustment to working with a partner. The private bank partner funds this scheme of financial incentives. (See section II, business model 3e for more information on the Colombian case).

A combination of individual and office-level incentives helps to promote competition with a certain degree of cooperation inside an individual post office. In Laos, an incentive scheme has been devised based on the amount of money transacted by the Post Offices, however, this scheme incentivizes the zone with all the post offices it includes and not the specific post offices thus reducing its effectiveness. The Lao Postal Savings Institute is now working on improving its scheme to make it post office specific as well as teller-specific.

4. Customer service

The financial services market, unlike the postal market in many developing countries until recently, is a competitive one, where private providers rely on better service to gain customers. If postal staff provide a poor customer service and do not treat clients properly, customers will soon take their business elsewhere. Unlike other indicators that can be measured or at least evaluated using quantitative metrics, customer service is hard to assess. Low morale and low salaries among employees is one the key reasons for dismal levels of customer service which can be observed in some post offices. A recent mission to East Africa showed that lack of appropriate customer service had been one of the key issues that decided the Postbanks to move out of the Post offices. It is therefore an issue to be taken into consideration by Postmasters Generals who wish their institutions to fare well in the financial services sphere.

Consumer protection measures are another aspect of customer service that could be a way to start assessing the level of development in this sphere. For instance, the existence of dispute settlement procedures at the Post and pricing transparency could be explored in the next iteration of this survey.

5. High turnover of personnel

For staff to be fully productive, they need to remain for a certain time in the same department to master the processes, and to be able to put the experience acquired into practice. High levels of turnover can mean there is less incentive for staff members to launch new initiatives the results of which they might not personally see.

Among others, Yemen's postal operator mentioned that turnover of personnel could negatively impact operations as IT-trained staff migrated to better-paid sectors (telecommunications or IT).

In Lebanon, in order to avoid turnover of personnel, the postal operator has implemented a system of incentives. Salaries have a fixed and a variable element. The variable element of the remuneration depends on selling certain "push" products defined by management as being important to promote.

6. Resistance to change

Another major issue for the development of postal financial services is resistance to change. Offering new products and services to bank the unbanked is often seen as something new that will bring more work and new customers, and require new skills, and for certain segments of staff these changes in the environment can be challenging. The normal response is a passive reaction, called resistance to change. In the postal context, this is often found when management decides to introduce new financial services in countries used to offer only mail and parcel services. Middle management and operational staff are often afraid to engage in these new endeavours, especially if there are no incentives.

One proven means of combating resistance to change is training at all levels combined with bringing everyone on board by communicating on the changes to come. This was well understood by the top management at Poste Maroc, who pursued a very clever strategy to reduce resistance to change in the context of the creation of a postal bank. The operator created a postal university three years before the official launch of the postal bank. This university has three institutes, one of which is exclusively focused on banking activities. The bank academy trained each and every employee of the group in the basics of the banking profession through a three-day course. This introduction, along with a strong communication strategy towards the unions and staff in general, was important in ensuring acceptance for the idea of a postal bank.

²⁷ The Bangladesh Post Office an unexpected source of branchless banking innovation, Chris Bold, CGAP, 2011

7. Performance culture and results-based assessment

In some Posts, the corporate culture does not promote performance and results; this has been identified in field missions as a major hindrance to fostering financial inclusion, but also to overall postal development. Indeed, in most countries, staff are not used to being assessed on objectives, or to go further in their work than they were initially requested to do.

For countries such as Serbia, Tunisia and Lebanon, it is quite clear that the postal operators have taken significant steps to leave behind part of their bureaucratic culture and adopt an entrepreneurial culture. By entrepreneurial culture we mean a common employee and management mindset based on setting and reaching objectives and on always trying to improve in order to be competitive. It is interesting to note that entrepreneurial culture does not necessarily derive from the Post's legal status. Indeed, while Lebanon is a private-sector Post, in Tunisia and Serbia the Posts are 100% government owned.

While bringing younger people from the banking sector is usually a good idea in terms of building an entrepreneurial culture, cases such as Serbia, where financial services have not received reinforcements from the private sector, still demonstrate that Posts can find within themselves the resources to become entrepreneurial.

8. Corrupt practices

With low wages in the public sector and in the postal sector in particular, combined with inefficient internal controls, corruption is a major issue for some Posts in developing countries. In the case of financial services, where the amounts involved can be quite high, corrupt practices or embezzlement could harm the development of financial services by curbing trust levels and exposing the Post to the need to cover losses resulting from the actions of certain staff.

While such cases have become rare in recent years, in particular thanks to the increasing use of information technology, which allows better track to be kept of money, there are still some important examples worth citing. In Pakistan for example, the Post lost its multi-million dollar contract with the government to disburse the Benazir Bhutto Income Support Programme (BISP), a conditional cash transfer implemented by the central government, to be paid out to the poorest. Several malpractices had started to emerge, following complaints from beneficiaries. After investigation it was shown that up to 40% of payouts were lost to Pakistan Post employees. The BISP contract has now been handed over to a bank, which will make sure that payments are made electronically to an account and that beneficiaries can use a card to access their money. Corruption is a major challenge that must be addressed in all Posts if they are to keep or regain their trusted role as an arm for financial inclusion.

9. Internal leadership

In most success stories, there has been a specific champion or group of people at the Post who place strong emphasis on the diversification of the Post into financial services. In Italy, Massimo Sarmi, CEO of Poste Italiane, was key to the modernization of the postal operator, and in particular of BancoPosta, its financial services. Following his arrival in 2002, he managed a complete turnaround from an old fashioned deficit-bearing postal financial service operation to a modern, profit-making, socially inclusive financial powerhouse.

Postal financial inclusion is not always considered as part of the core business of postal operations. So it usually requires a strong personality, impetus and vision to push forward a project in this direction. To evaluate the opportunity of postal financial inclusion in a country it is thus important to identify whether there is a champion or a group of committed individuals in decision-making positions who are interested in going in the direction of financial inclusion. And it is important to evaluate whether their leadership is strong enough to make the organization adapt.

For instance, in Mali, a new CEO coming from the private sector was appointed as the head of the postal operator in order to revamp the declining *Office National des Postes*. In 2011, following three years in the job, he managed to change the regulations to allow the Post to offer financial services once again after more than 20 years. He is a strong and driven person, but still needs external support to face resistance to change and get the whole organization to move in the direction he has set, and achieve a modernized and diversified Post. Another good example comes from *La Poste du Sénégal* and its former CEO, Iba Basse, who in 2002–2003 convinced the Post's line Minister and the Minister of Finance to include the restructuring of the postal operator as part of two World Bank projects. The first project focused on budget support to assist financial restructuring, while the second mainly consisted of technical assistance to build capacity at the Post to offer financial services. The results are quite clear today: *La Poste du Sénégal* has created an independent structure called Postefinances, a strong player in financial inclusion in the country, which most Posts in French-speaking Africa look up to.

C. Financial capacity

Among the success factors which determine capacity, the third and probably the most important one is financial capacity. This concerns the resources that the Post has to perform its activities, whether financial or purely postal. A Post with positive results is capable of covering the investments needed to perform the basic modernization, which consists in upgrading the network, automating processes which are not yet automated, and hiring skilled middle managers with

some banking or financial background. Also, a profit-making Post usually has enough liquidity in the network to cover all financial transactions, whether they are its own or those of partners. Therefore, financial capacity is probably the key characteristic of Posts that perform well in financial services.

The issue in many countries is that Posts are operating at a loss in their core mail business. This is the result of several factors: first of all, the decline in the mail business, which has taken its toll on most postal operators worldwide, but also partly the lack of market orientation, inefficiencies, issues of good governance, as well as the lack of a policy framework that could provide the right incentives. Finally universal service obligations can be costly and are often not offset by the monopoly provision which is hardly enforced in a de facto competitive market. Private companies focus on the most profitable business in urban areas, while designated operators need to maintain an expensive rural infrastructure.

This is not a new phenomenon for some Posts in least developed countries, which have been facing deficits for several decades now. Also worth mentioning among the financial issues are the way telecoms and posts were split from a common entity. In most countries, the historical telecom operator and the postal operator were a common government agency for several decades until separation came, usually in the privatization drive of the 1980s and 1990s. The linkages with the telecom sector drove a lot of political decisions which have been particularly negative for the development of the postal sector. In particular, when the process of preparing for telecom privatization required the separation of Post and telecom, in the opening balance sheets, governments often chose to put most liabilities and poor assets in the postal operator's account in order to provide the best value for the telecom operator.

The accumulation of losses often translates into a series of debts with suppliers or partners. This puts Posts

in a critical financial position, where they have to solve emergencies such as paying salaries with money that is not intended for that purpose, often breaching the ring-fencing rule. It is also interesting to highlight the burden that liabilities such as pensions can put on the balance sheet of some posts. This is why in countries such as Tanzania, the Ministry of Finance, the main stakeholder has decided to shoulder the burden to clean up the balance sheet of the Postal operator.

In this situation, offering financial services becomes an issue. Though there are several business models, most of them, other than the one where the Post is a provider of real estate, require the Post to transact with cash. In fact, the business models that are easier to implement are the ones that require good cash availability in offices. When we analyze the reasons for failure of financial inclusion partnerships, we see that the lack of liquidity in the system is a key issue in most of them.

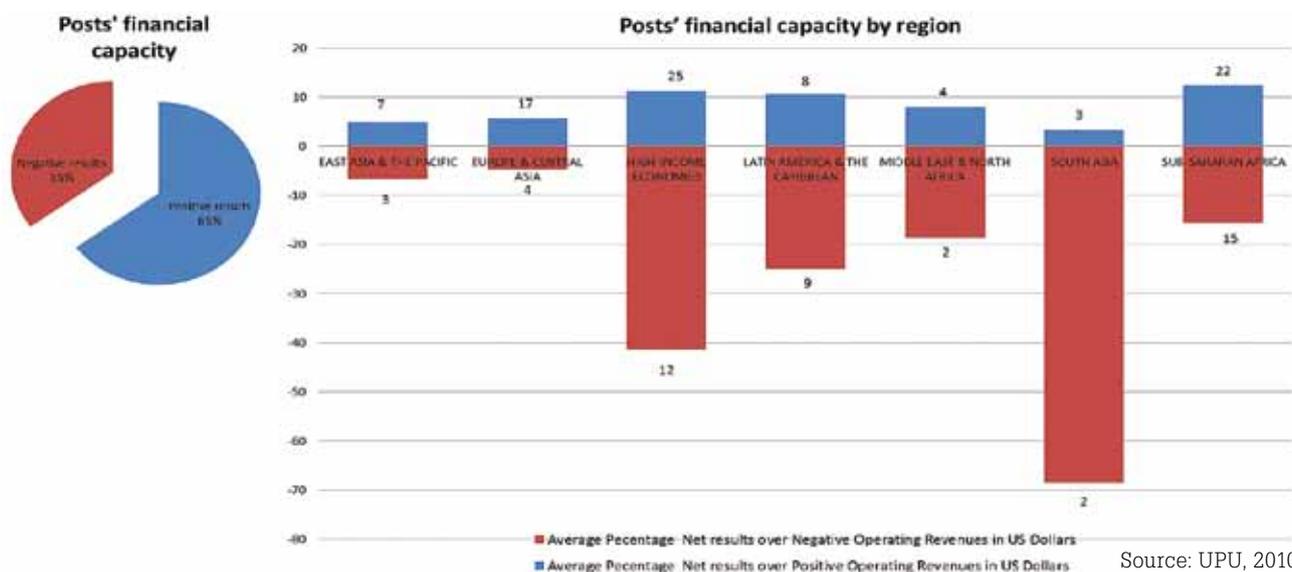
Another topic of concern that relates to financial capacity is the inadequacy and in most cases absence of a cost-accounting system. This hampers the ability of Posts to price their products in a cost-based manner, or to negotiate service level agreements that are profitable for them, or even to negotiate the amount of subsidy to be provided by governments to compensate for the universal service obligation costs.

There are many sub-factors to financial capacity, but the main ones are financial results and liquidity in the system.

1. Financial results

If net results are negative, this probably means that the postal operator is accumulating debt and at some point will be facing tough choices. What the graph below tells us is that 65% of postal operators are profitable. The level of profitability, calculated as the percentage of net results by operating revenue, is a good indicator of financial capacity.

Figure 32 – Financial results of postal operators



Source: UPU, 2010

The graph above to the left represents the average profitability ratio by region for countries that are profitable (in blue), and countries that are not (in red). The numbers in the graph denote the number of countries that have negative net margins (in red) and those that have positive net margins (in blue). It should be noted that when calculating net results some of the postal operators include subsidies received from the government. Something that is not taken into account in this graph is the level of indebtedness of the Postal operators. This of course impacts directly on the financial capacity of posts to reform themselves and become key actors in the financial inclusion space. The liabilities in the balance sheets of posts are at times so large that it could discourage several governments of investing in their postal operator.

2. Liquidity issues

Financial capacity to offer services is due not only to structural issues such as operating or net results, which we saw above as one of the key success factors, but also to the availability of liquidity in the network branches

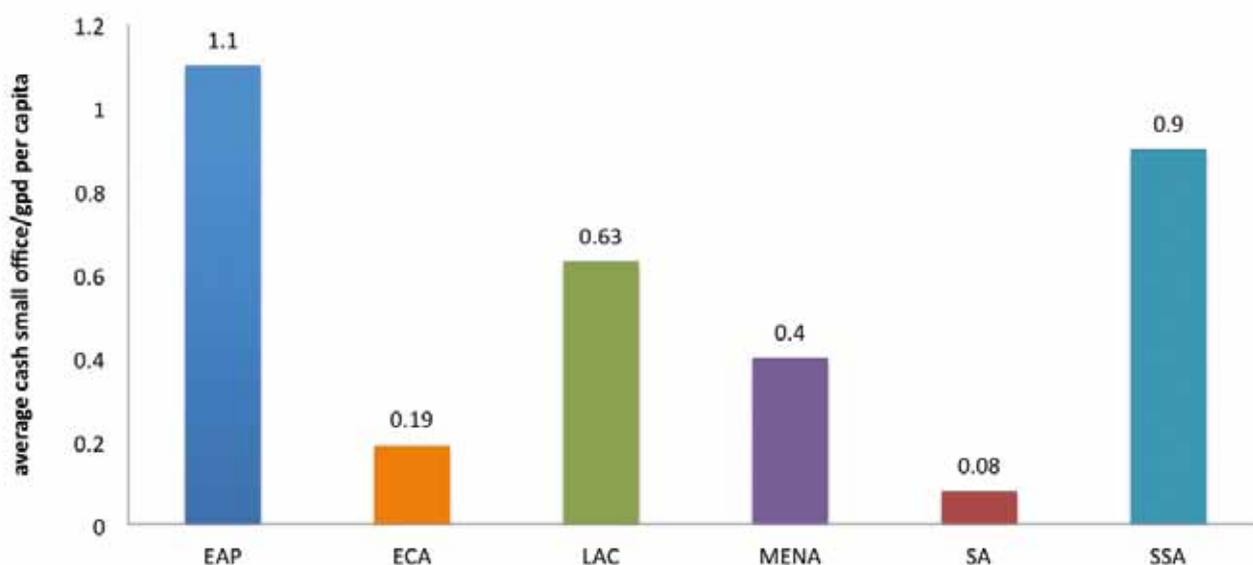
at all times. Liquidity in the system is the variable that enables services to be offered without hindrance.

The case of Mali is telling in this regard. In that country, international remittances from other parts of Africa and from Europe used to flourish. Unfortunately, the liquidity issue has become so severe that there was not enough money in the office drawers to cover those remittances. Beneficiaries often have to wait for one or two days before receiving their money, and this has impacted negatively on usage but also on the reputation of the Post as a whole. This reputation loss is a major issue for the further development of other postal financial services in that country.

This is not only the case in Mali but also in most developing countries that do not offer account-based services and therefore have few cash-in transactions in rural areas.

In places like Tanzania, this issue limits the development of the cash-merchant business model. For instance, a partner bank there is reconsidering their partnership after several cases where their clients were told there was no money to pay them. Cash shortages need to be addressed.

Figure 33 – Average cash in rural small offices by region



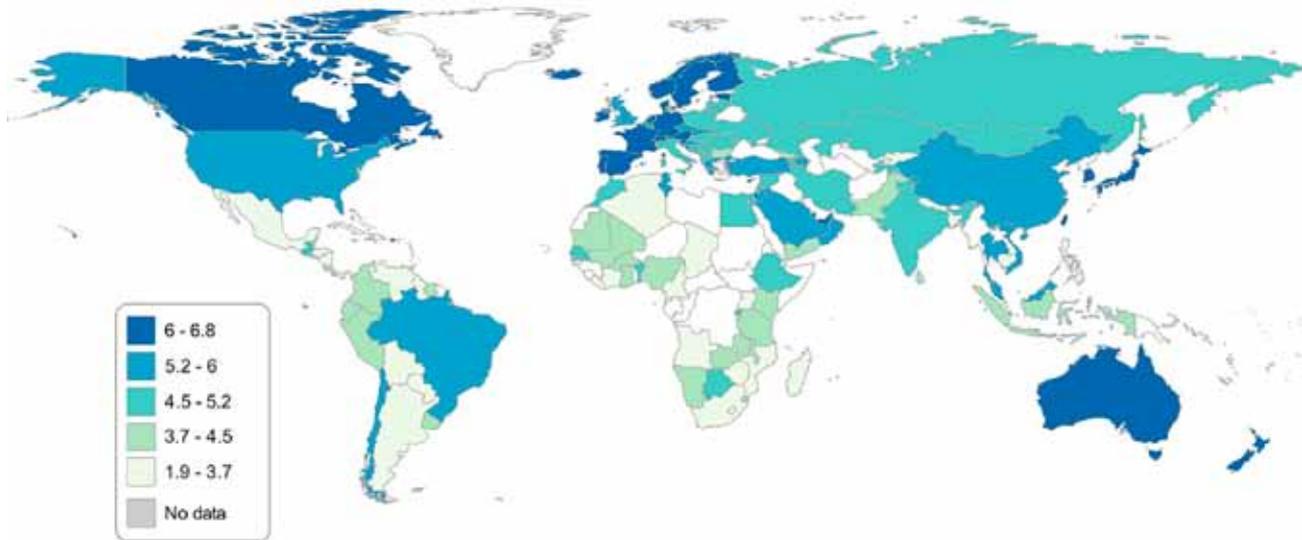
Source: postal financial inclusion survey, 2012

As mentioned above, the average amount of cash in a small rural post office in USD cannot be compared across countries or regions, given strong disparities in purchasing power. In other words, 1,000 USD in a high income country can probably fulfil the needs of a post office for a few average transactions, whereas in a least developed country this amount could allow the teller to perform several dozen average financial transactions. Therefore, in order to account for cost of living, we have divided the amount held in cash in a small rural post

office by GDP per capita. The result shows us that, on average East Asia-Pacific and Sub-Saharan Africa are the regions where rural post offices have most cash relative to GDP per capita. This is quite positive for postal financial inclusion, since these are the two regions with the highest unbanked population. However, in the case of South Asia, the results are striking, with a very small amount being held in the rural post offices, even by the standards of low and middle income countries.

D. Trust

Figure 34 – Worldwide trust levels in postal operators



Note: In the map above, 7 represents the highest score in terms of trust and 0 the lowest. This index is based on a survey conducted by the World Economic Forum on how confident would people be to send a parcel worth 100 USD using the designated postal operator of their country. This indicator does not precisely represent the trust levels of the general population for postal financial services, but given otherwise limited information it is used as a proxy in this report for trust in the Post.

Source: World Economic Forum, 2010

Trust is an important factor for Posts. In many countries, Posts have built a relationship of confidence with the people they serve. Unfortunately, this is not the case everywhere and in several countries financial issues have discredited the post. This factor is highly dependent on the region, as can be seen in the graph below. In most of Latin America (except Brazil and Chile, where trust levels are exceptional), and in several countries in Africa, postal operators' trust is below par. However, it is interesting to highlight the strength of postal trust in Eastern Europe and in South, Central and East Asia. In figure 34, trust levels above 3.7 can be considered good, since the range goes from 0 to 7 (see note for more details).

E. Automation and process integration

There is still a key missing factor to explain the Post's capacity for fostering financial inclusion: automation and process integration. For a network to function properly, its contact points must be linked. Such linkage requires basic connectivity, which we have seen above, but also processes that establish how activities should be linked, how reporting is done, how much cash there is in the drawers, how often it should be replenished, or how a service should be offered, among other things.

1. Automation (IT)

Automation is key to the appropriate development of postal financial services and to the ability to compete with other financial service providers and agent net-

works. Today, most financial actors, including local savings cooperatives, are looking into how to modernize their services and move from paper to digital systems; the Post is no exception. Without automation, all other success factors become almost irrelevant. Indeed, moving from paper to electronic solutions is the basis on which to build solutions to the other challenges to postal financial inclusion presented in this document. For instance, in Kenya the lack of automation in the back office was an issue in rebuilding the partnership with the post bank, thus affecting governance between the Post and the postal bank. There, the partnership was based solely on paper passbooks, but negotiations have now been resumed, after stalling over technology and pricing. In Togo and Bangladesh, automation and basic connectivity were key to increasing flexibility by allowing the Post to offer doorstep solutions using postmen in Bangladesh and mobile postal savings branches in Togo.

While developed countries such as Italy have been in the vanguard of the modernization of financial services, there is still some room for improvement even among the most developed of Posts. Poste Italiane is the only Post in the developed world to offer access to its postal savings over a mobile network. This was made possible by the pre-existence of wide-reaching postal financial services and the creation of MVNO PosteMobile, which gave the Post a pipeline through which to deliver existing content. By linking the two, Poste Italiane was able to develop one of the most successful mobile financial service deployments in terms of usage, with 50% of SIM card holders using their mobile phone for financial services. In France, customers of La

Banque Postale can receive financial advice directly over the Internet. Meanwhile, the UK's Royal Mail is the only postal operator offering near-field communication (NFC) for mobile payments at its post office counters.

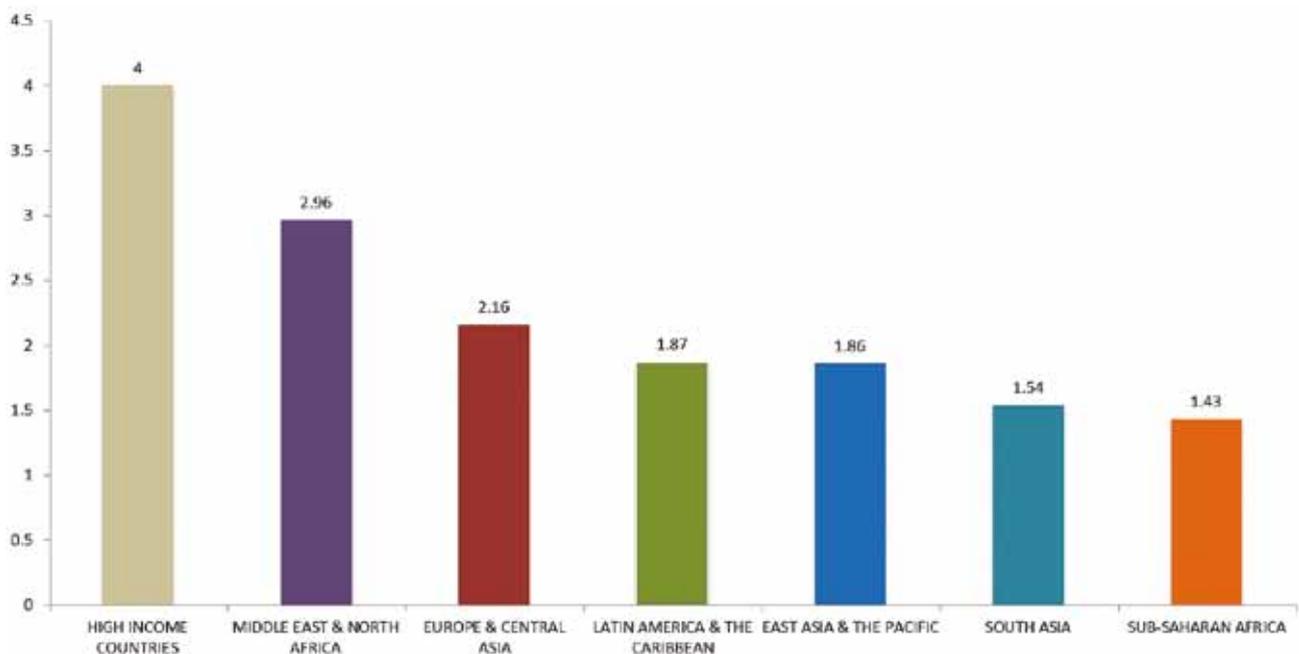
However, in developing countries, the challenge is much greater. In those countries, digitization is much more basic, and starts with automating back offices that are still manual, or shifting from paper money orders to electronic remittances.

A fully automated solution for postal financial services, similar to a core-banking system, costs between 400,000 and 1 million USD, depending on the level of sophistication and whether it is a licence for off-the-shelf software, a platform developed in house, or a customized solution. These are significant amounts, which most Posts cannot afford given their financial situation; however, such investments are virtually necessary in order to guarantee success in postal financial inclusion. For instance, Pakistan Post has just installed

a centralized IT solution for almost 800,000 USD. But full modernization of the virtual network can be much more costly still. In India, the postal service plans to introduce ATMs, debit cards linked to postal savings accounts, and core banking services by the end of 2012 under an IT modernization programme estimated to be worth 410 million USD.

On the basis of the answers to the questionnaire, we have developed a modernization index, which concentrates information on whether a Post has automated its back office, its cash management system and its general cash management processes, as well as its levels of computer literacy. The aggregate amount shows the modernization level of a Post. In figures 35, we can see that MENA countries have attained high levels of automation and process integration compared to the other developing regions which have higher GDP per capita, such as EAP and LAC

Figure 35 – Modernization index (0 min, 4 max)



Source: postal financial inclusion survey, 2012

2. Processes

Processes are even more important for postal financial services than for letter mail or parcels. Whenever money is involved, controls need to be put in place. Resources must be ring-fenced for each of the services, and not mixed with the general cash process. Today, Posts have information technology that facilitates process integration by automating most processes. There are three major points where automation is key: management information systems for the back office, cash management systems, and finally teller modules for the front office.

As a general rule, if a postal operator has all of its

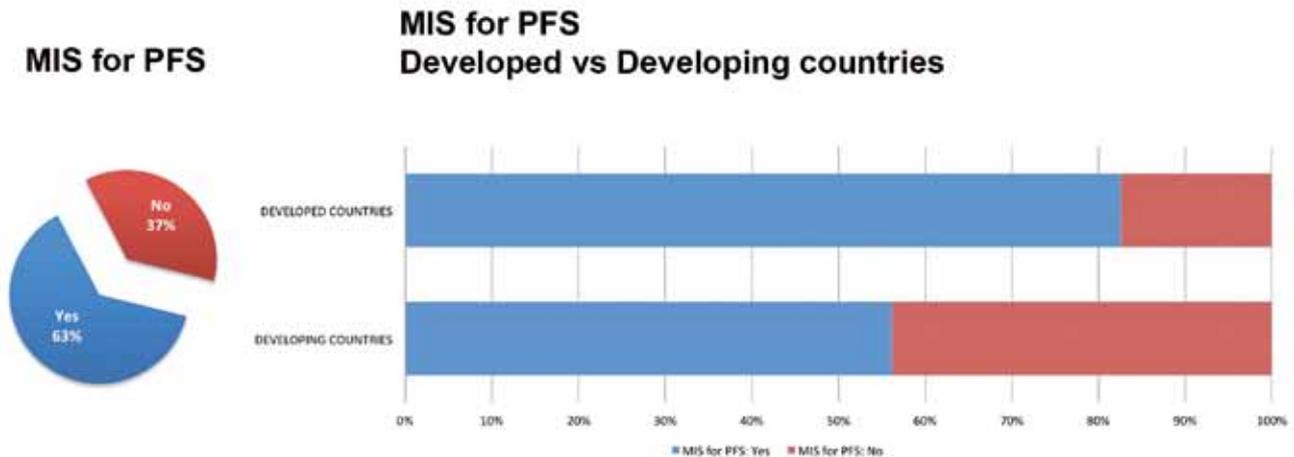
processes automated, then it will be much easier for it to offer financial services either directly or in partnership with another financial provider. For partnerships, automation of the back office and front office are the most important of the three automated processes mentioned above. This automation allows interconnection through an interface with the platform of a third party to offer the latter's services via the postal network. It also reduces errors and saves time at reconciliation, and so facilitates settlement with the partner.

The use of a management information system for postal financial services with all the operational

data gathered in a single system can not only greatly facilitate strategic decision making, but also limit the risk of fraud. According to the survey, 63% of Posts worldwide have a management information system. In this sense, Posts are lagging behind banks, which are

virtually all equipped with MIS, given prudential requirements. However, if we compare Posts to all microfinance institutions, the proportions equipped with MFIs are broadly similar.

Figure 36 – Management information systems for postal financial services



Source: postal financial inclusion survey, 2012

Case study 8: Settlement Issues (Tanzania and Ethiopia)

In terms of settlement, Posts have adopted two main options which depend mostly on the type of service rendered, in other words whether it is mostly a cash-out service for the Post, or a cash-in service. For partnerships that represent a net pay-out for the Post, then the Post usually requires the partner to have the whole amount deposited up front. These services are mainly government payments, international remittances in net receiving countries, and loan disbursements with MFIs. This is, for instance, the case of pension payments through the Post in Ethiopia. If it does not ask the partner to pay in advance, the Post requests the creation of a float account, funded by the partner, which allows post offices to pay the transactions. This is the case in Tanzania, where the Tanzania Postal Bank (TPB) has an account with the Tanzanian Post for the processing transactions on TPB's behalf. In the case of full payment up front, there is a reconciliation process to be performed with the partner to show who received the money. Instead, in the case of a float account, after the reconciliation process is completed, the partner is requested to refund the float account by the amount paid out in the previous cycle.

The second option usually occurs for services which are mostly cash-in. This is the case for instance of bill collection, insurance premium collection and savings collection. In these cases, the Post receives an amount in its offices which then needs to be settled to the partner's account at the end of a certain period. Other financial services usually operate with next day settlement (t+1), but Posts in the developing world are used to settling on a monthly basis (t+30). This is mainly due to the manual procedures in the back office, which slow down the processes. The settlement period is an important issue in risk management; several risks increase with an increased settlement period. This is particularly true of credit risk and foreign exchange risk.

3. Cash management

Cash management is an important success factor for partnerships and direct provision of financial services. As we have seen above in the financial capacity section, liquidity issues could be problematic. One of the solutions to this challenge is cash management. Liquidity in the system could be compared to the amount of water in a pipe system. If you have plenty of water in the tubes, then an inefficient system architecture is not so important because water flows everywhere. But cash management is the actual architecture of the pipe system, which allows water to be at the right place at the right time even if you have low water levels. Given Posts' liquidity constraints, cash management takes on particular importance in developing countries. For instance, in Mali, the Post was not able to pay some of its international remittances through the UPU's IFS network owing to lack of liquidity. A UPU/World Bank mission was therefore deployed to Mali to help the postal operator improve its cash management techniques, so that every dollar in the system is used as effectively as possible. There are two ways to do this: automate cash management, and improve cash logistics.

Automated cash management system

By using an IT system that has information on the exact amount of cash in the offices in real time, we can greatly improve cash-management practices and reduce risks. The cash management system is usually a module of an

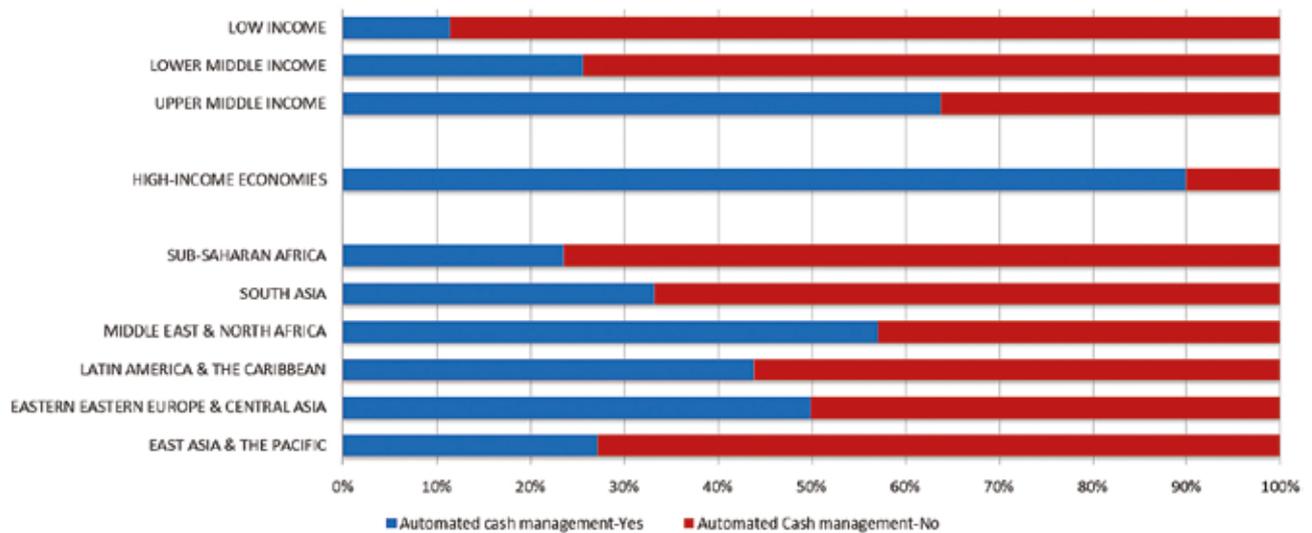
MIS or a core-banking system. If not all Posts are online, then postmasters can update the cash management system at least once a day by calling headquarters and providing the necessary information, so that the finance department at headquarters maintains up-to-date overview of the cash position in each of the offices.

The great advantage of an automated cash management system is that it can keep track of previous years and establish a cash-needs forecast for the future based on previous experience. It can then calculate the difference between what is needed and what is actually in the office, and flag deficits or excesses that could be inefficient or risky. Then, it is the role of the finance department to deploy cash to where it is needed, and request the depositing of the excess at the closest bank branch.

The graph below shows us that, as could be expected, the level of automation of cash management is extremely dependent on country income group. For instance, only 12% of postal operators in low income countries have a cash management system compared to 63% for upper-middle income and 90% in high income countries. This is mostly due to the fact that automated cash management systems are usually the last mile in terms of automation. Once there is an MIS and the back office is automated, then Posts can invest in a cash management module, and not the other way around.

In regional terms, MENA and ECA are the best faring developing regions, which is not surprising given the modernization levels that we identified above.

Figure 37 – Levels of automated cash management



Source: postal financial inclusion survey, 2012

Automating the system is an improvement; however, it is not essential. For instance, in India everything is done manually, but apparently there are few cases of fraud, and no issues with liquidity. Some postal operators such as the Ethiopian Postal Service Enterprise have introduced strict cash management procedures with reporting back to the head offices at regular intervals. The other factor that comes to play in terms of cash management is cash logistics.

Cash logistics

If we were to continue with our pipe system metaphor, cash logistics would be the pumps that propel the water for it to circulate in the system.

Once a postal operator has identified where the shortages or excesses are to be found in the network, it needs to respond by making cash available where needed, and reallocating cash that is in excess; this is what we call cash logistics.

Transporting cash is always an issue, but it becomes a nightmare in post-conflict settings or in countries with rampant criminality. The Post, like any other financial service provider, needs to move cash around. There are several ways to do this. Outsourcing cash transport to a private company that specializes in security and has its own armoured vehicles is the safest option, since all money transported is covered by insurance. It is also the most expensive option, and is probably not sustainable, in remote areas of the developing world, where we want Posts to deliver financial inclusion. The other options rely on the Post's own resources, and are therefore cheaper.

The great advantage of the Post over microfinance institutions or banks is that it is a logistics company in itself; it has its own vehicles that bring letter mail and parcels around the country several times a week. Some of these are armoured, which is the best solution because costs are lower and security of cash is high.

A less desirable option is for the Post to use its non-armoured trucks to transport cash around. This could be dangerous, since thieves may realize there

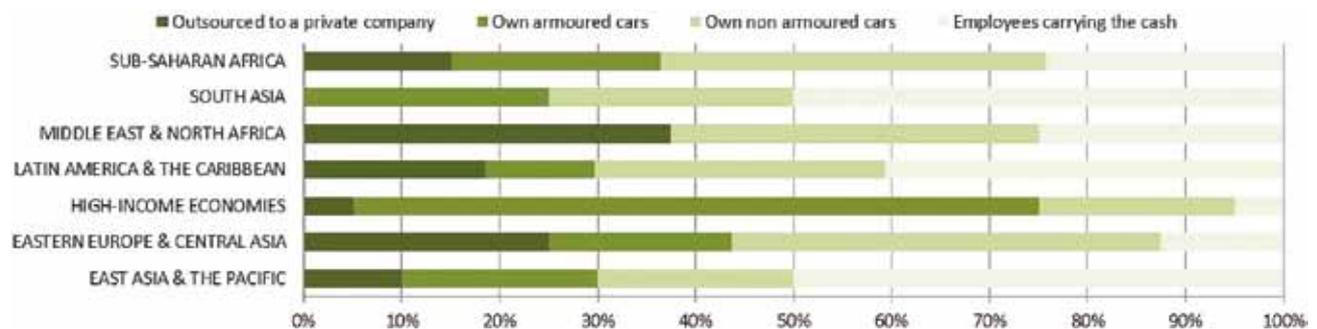
is money circulating on a regular schedule with these vehicles.

The least desirable option in terms of risk is for postal employees, usually the postmaster him/herself, to personally carry cash to the bank or to the next post office requiring funds. This exposes postal staff to robberies, physical injuries and potentially death, and should be avoided. The figure below shows us that employees carrying cash is still a prevalent feature of cash transport in South Asia and East Asia-Pacific, the two regions with the largest networks, where 50% of postal operators use employees to transport cash to or from post offices.

Given the importance of this topic, our survey asked postal operators what methods they use to deliver cash.

Only around 10% of postal operators responding to the questionnaire have outsourced their cash transportation to a private company. However, in approximately 40% of cases, postal operators use fully secure solutions – either their own armoured cars, or outsourced armoured cars.

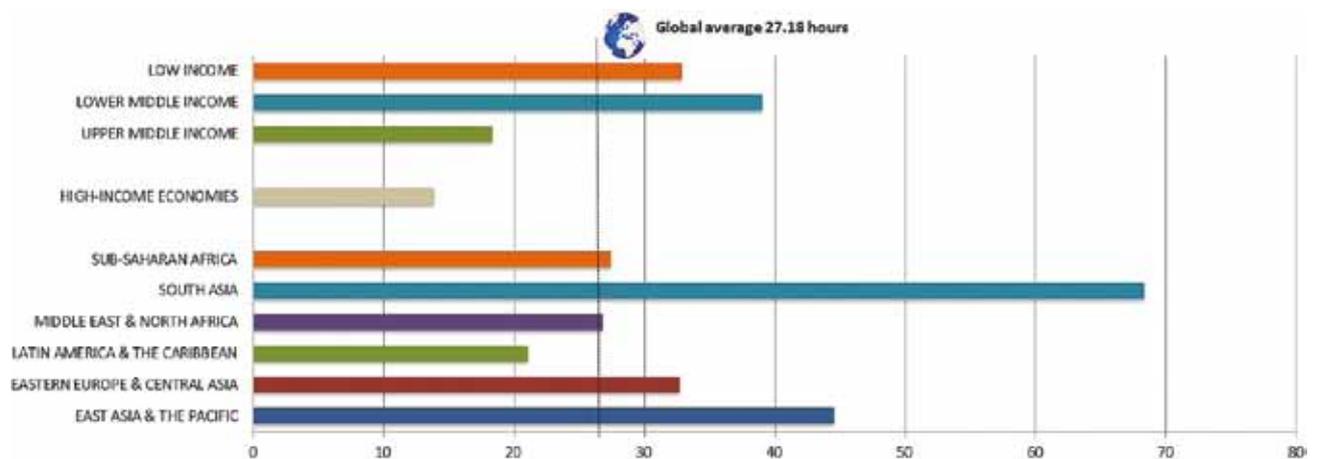
Figure 38 – Cash transport by region



Note: Postal operators could select multiple answers.

Source: postal financial inclusion survey, 2012

Figure 39 – Average time to deploy cash to a small rural post office time by region and income level



Source: postal financial inclusion survey, 2012

The efficiency of cash logistics can be measured in terms of the time it takes a postal operator to deploy cash in a small rural post office when the need arises. Based on the survey, we now know that on average it takes a little over 27 hours to deploy cash. However this average is somewhat skewed by two outliers, the Solomon Islands and Bhutan. Latin America and the Caribbean is the developing region with the best results for this indicator. On average, it takes less than 24 hours to have cash delivered to a small rural post office in that region. This is due to the relatively small postal density compared to other regions found in most LAC countries, except for Brazil and Mexico.

Postal operators in high income countries deliver cash to rural post offices in less than 14 hours, but obviously the transport infrastructure in those countries is not comparable with most developing country contexts.

The problem is that there is not enough cash in the postal system. Since getting cash to rural areas is considered to be the factor increasing the cost of financial service delivery, the fact that, in most cases, the Post can have cash deployed efficiently is a positive finding for future developments in postal financial inclusion. However, given liquidity issues at the Post, partnerships in which banks pre-fund an account for the Post to perform transactions on their behalf could be a potential solution for postal financial inclusion, as long as ring-fencing of funds is enforced by the financial service partner.

4. Risk management

The issue of automation and process integration is directly related to risk management. In order to avoid risk, in particular operational, credit, liquidity and market risk, and thus prevent possible frauds or corrupt practices, it is important to put in place appropriate controls.

Internal controls

A major gain in terms of internal controls can be achieved through the automation of processes.

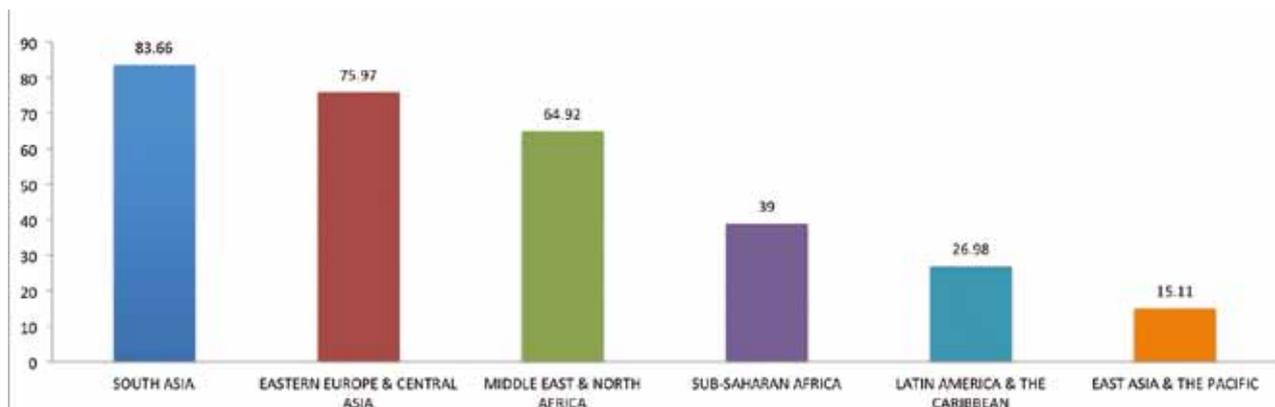
Posts tend to be good at controlling; it is part of

their logistics background. Each and every step of business processes is controlled for and dissected to avoid possible errors. However, the controls that are in place were often established in the days when paper-based transactions were the norm, and therefore no longer respond to the needs of modern financial institutions, which some Posts have become over the years. For instance, in Morocco, with the creation of the postal bank, the central bank asked the Post to review its procedures and set up control points for every process where a possible risk was identified. It implemented an internal control procedure based on four levels of internal controls: i) self-control by the employee who is supposed to check that the numbers are correct; ii) control by another person (back office in Morocco) and hierarchy; iii) external audit; and iv) general inspection at the government level.

Security

Another challenge for Posts is the security issue. Offering financial services in rural areas is often a challenge in terms of security. The Post's core mail business does not require much cash to operate. However, in the transition to financial services, postal operators have to significantly increase the amount of cash in their offices, and this requires a certain level of security. There is strong variation among regions in terms of security features. This depends mostly on the country context, and does not necessarily denote an insufficiency. For instance, while South Asia has some sort of security feature (alarm, safe, guard, etc.) installed in 94% of post offices, in LAC the percentage is much smaller, totalling only 23%. This difference can be explained by the importance of financial services in South Asia and the lack of such services in most Posts in LAC outside Brazil. However, the presence of security features at the post office is an important factor that financial service providers may take into account prior to signing partnership agreements with the Post to deliver their services over the postal network.

Figure 40 – Percentage of post offices with some sort of security features



Source: postal financial inclusion survey, 2012

Anti-money laundering and combating the financing of terrorism (AML/CFT)

The third issue in terms of risk management is AML/CFT. Here, Posts lag behind their financial service competitors such as banks, which are usually 100% compliant with basic AML/CFT regulations, and even microfinance institutions.

In terms of AML/CFT it is worth noting the progress made by the Financial Action Task Force (FATF) in accepting a risk-based approach to AML/CFT in its recent publication on the link between financial integrity and financial inclusion²⁸. A risk-based approach seems to be important for the Posts, which work mostly with low income populations, and thus tiered AML regulations would make sense. In a risk-based approach, for

lower amounts and low risk populations or regions, regulations can establish lower requirements which can facilitate the adoption of financial services by the unbanked.

Since most Posts are not regulated per se in the provision of their financial services there has not been a strong supervisory push towards putting in place basic AML/CFT provisions such as a compliance programme or even the appointment of a compliance officer. Concretely, this means that 38% of Posts worldwide do not have a compliance programme, and a quarter do not have a compliance officer. A tiered regulation in this sense could help the Post move forward while ensuring integrity of the system.

Figure 41 – AML/CFT programme

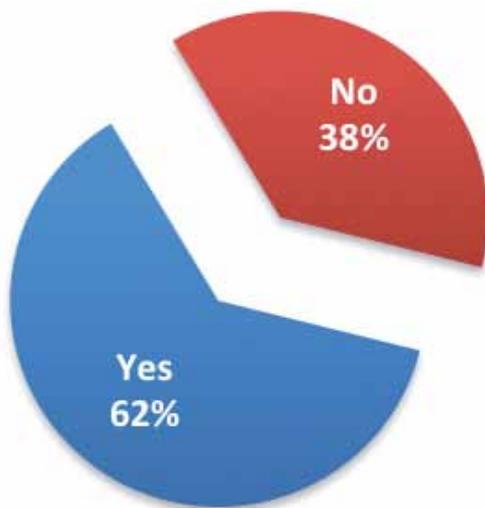
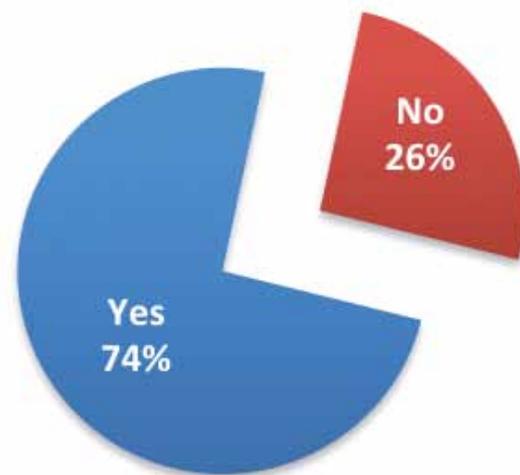


Figure 42 – AML/CFT compliance officer



Source: postal financial inclusion survey, 2012

There is a large gap to be filled in this particular area, and external donor assistance might be needed to catch up. The UPU is currently working with the World Bank to implement technical assistance programmes on this topic for postal operators.

F. Willingness to foster financial inclusion

There is a long tradition of postal financial services around the world, and in many countries the Post has often been the government's arm for fostering financial inclusion. This willingness to promote financial inclusion is therefore not a new trend, but only the rediscovery of an old role which had been neglected in many countries but has now been given a new relevance in the context of technological changes.

The preceding factors are all related to the capacity of the Post to foster financial inclusion. However, experience both from developing countries like Brazil, Morocco or Namibia, and developed economies, shows that alongside capacity and governance, it is often political support and/or the will of key people in the Post that has sealed the success of postal financial inclusion in those countries.

1. Ministerial support

Political support is understood as the willingness of decision makers in government to leverage the postal network for financial inclusion purposes, or at least to increase geographical access to financial services using the Post. A typical government is interested in finding ways to increase the level of deposit collection from the general public as a way to affordably finance itself without depending on external creditors. This financing can of course only cover part of a government's debt. In many cases, this has been done by requiring the Post to invest its deposit balances in treasury, either by

²⁸ Anti-money laundering and terrorist financing and Financial Inclusion, FATF Guidance, June 2011

purchasing treasury bills or by depositing directly the savings and deposits at the treasury.

In other cases, the government wants these deposits to help the development of the economy; this is the case of Morocco, where the savings collected must be deposited with a development bank (Caisse de dépôt et de gestion), so that they can be invested in the country's strategic projects.

Another major public policy objective is to increase levels of formality in the economy. This can be achieved in part by people using postal financial services. For these reasons, politicians have been interested in developing postal financial services in the past, and this is still the case today. However, political will is an important but not a necessary condition for the development of postal financial services. In several cases, these services have developed not because of a decision from above, but as a result of impetus provided by a champion within the postal operator.

2. Central Bank Support

On top of the support from the Ministry of Finance and the line Ministry for Posts, the Central Bank is a key actor in facilitating the success of postal financial inclusion. Central Banks which have understood the potential of their postal operators as a key distribution channel for financial services are being quite successful in their overall financial inclusion goals. Brazil would typically be one of them, where the Central Bank has played an important role in providing the adequate legal and regulatory framework for the post to be an effective agent for banks.

G. Governance between the Post and postal financial services

In spite of geographical differences, there seems to be a recent trend towards building legally independent postal financial services entities, either as fully licensed postal banks (South Africa), limited licence banks (Morocco), or

other intermediate forms such as a postal microfinance entity (Laos). In this context, the actions to improve the link between the Post and an independent postal bank are important and deserve to be analyzed in more detail.

1. Case of postal financial services as a department of the Post

The most common structure among the surveyed countries is for postal financial services to be offered by a department of the Post. This is the case for 83% of countries.

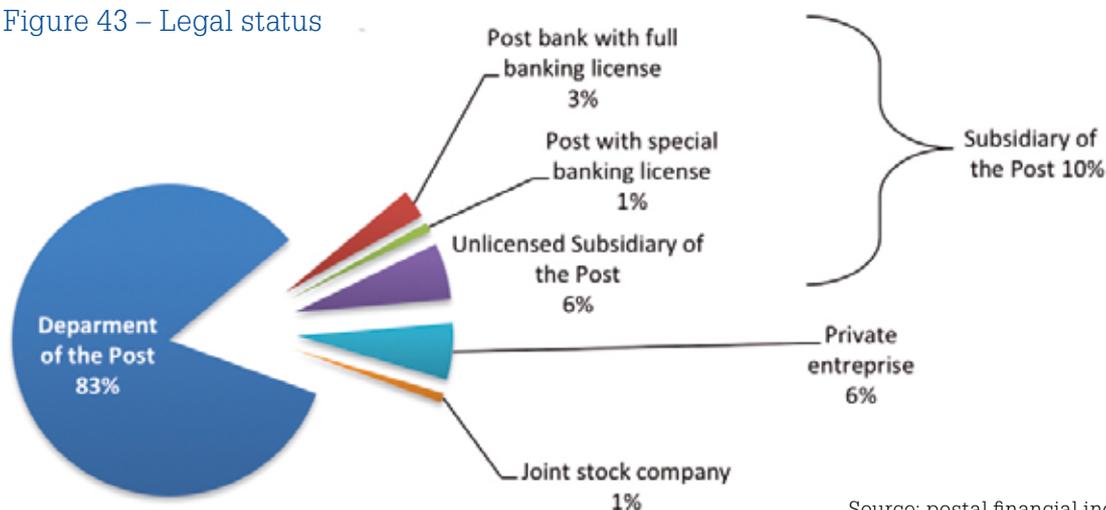
The transition whereby the financial services department spins off postal financial services into a subsidiary could potentially become a challenge but is worth exploring. In most cases, managers of financial services at the Post believe they would be better off as bank managers than as postal managers. However, the transition towards an independent subsidiary is a complicated process, because it entails not only legal changes but also operational changes, which can be a challenge for many Posts.

2. Case of postal savings or postal banks as a subsidiary of the Post

The second category is for countries that have created a separate legal entity for their postal financial services, but this entity is a subsidiary of the Post either fully or in part. This is the case for 10% of the 123 countries that responded. Indeed, in 6% of cases, postal financial services are a subsidiary of the postal operator, and in an additional 4% postal financial services have become fully or limited licensed postal banks. There are several instances of this organizational structure in French-speaking Africa, in particular in Senegal with Postefinances, or in Gabon and Morocco with their postal banks.

Keeping the postal bank as an integral part of the postal group can in many instances be a challenge, in particular in terms of ensuring that the postal bank continues to use the network of the Post to serve rural

Figure 43 – Legal status



Source: postal financial inclusion survey, 2012

areas and the unbanked, and does not try to reinvent a new network where one already exists. Indeed, in many countries the creation of a separate entity was the beginning of a slow drift towards full independence, and sometimes privatization of postal savings. In itself, this complete separation is not an issue; the problem is that independent postal banks tend to avoid using the postal network to offer their services, as can be seen in the next case.

3. Case of completely independent postal bank with an eroding partnership with the Post

Posts offer wide, capillarized access to unbanked segments in rural and marginalized urban areas which other providers do not reach. Meanwhile, postal banks offer savings, and sometimes microloan and insurance products, that cater to the needs of those populations and thus ensure usage. If we are to promote financial inclusion through postal networks, the linkage between these two types of actors is a low-hanging fruit with enormous potential. In theory, such partnerships should be facilitated by the historical relationships between these institutions which emanated from the same corporation. However, today this is not the case everywhere..

In Kenya, as in Tanzania and Uganda, the Postal Savings Bank was separated from the postal administration early on, sometimes as far back as 1977, when the East African Community was dismembered. While Posts in the region are looking to develop their partnerships for bill collection and other financial services, postal savings banks are trying to build a network of agents. The answer to the needs of both parties seems to be a “no-brainer”: a partnership between an extensive network (the Post), and financial services (the postal bank). Such a partnership still exists in these countries, but unfortunately it has eroded to such an extent that it is almost unnoticeable. However, despite these entities growing apart in recent years, governments seem to want them to relearn how to work together. Indeed, a new trend is surfacing, with the government in Kenya handing over a minority stake in their postal bank to the postal operator (40% in the case of Kenya). In Tanzania, the Post was a shareholder from the very creation of the Postbank and still owns around 12% of its shares although these are being diluted as a result of the Ministry of Finance’s successive rounds of recapitalization. Since this could be the case in other parts of the Commonwealth as well as in other regions, it is important to analyze the relationship between these actors in the context of financial inclusion and determine how to address the issues that have become obstacles in the transition from competition to cooperation²⁹.

An UPU field assessment in Kenya and two recent joint-missions with WSBI to Uganda, and Tanzania

²⁹ Postal banks that are not linked to postal operators were not part of this study. Most of these independent postal banks are located in Europe (Germany, Netherlands, Romania, Bulgaria, etc.) and in East and Southern Africa.

demonstrated that the main issues hindering the development of partnerships between independent postal banks and Posts in this part of the world were fourfold: i) transfer pricing schemes; ii) lack of trust among former partners; iii) training; iv) finance issues (reconciliation, ring-fencing and liquidity issues).

H. Legal and regulatory framework

While both capacity and willingness are important, sometimes they are not enough, and a third factor, completely exogenous to the postal operator, is often the most decisive: laws and regulations. The legal and regulatory framework establishes whether a Post can offer certain services and whether it can operate a postal bank or become an agent for a financial service provider. It thus determines not only the business model for pursuing postal financial inclusion, but also whether postal financial services can be launched at all.

Posts operate within a well-controlled legal environment. Usually, this takes the form of a postal act which creates the postal operator and establishes the services offered by the Post and the conditions under which they can be offered. However, postal financial services are often left in a regulatory limbo between the postal regulation enforced by the line ministry – usually the ministry of information and communication – and the financial sector regulation enacted by the banking supervisor and/or the central bank. This results in an unpredictable legal and regulatory framework for postal financial services, with none of the regulators ready to take action to create an enabling environment for those services. This situation is starting to change, and the overall trend is for the central bank to take an increasing stake in oversight and supervision of postal financial services.

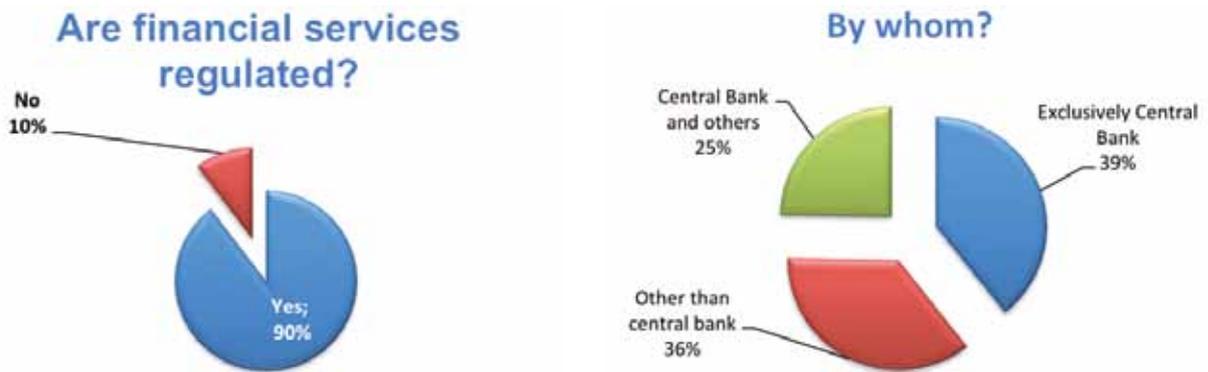
A completely enabling legal and regulatory framework should guarantee the following for the postal operator:

1. Oversight/supervision of the central bank

As an actor involved in the provision of financial services, the Post should report to the central bank on the services it offers. This is particularly true for deposit accounts (giro and savings accounts). It is important for the central bank to be able to monitor evolutions in the balance sheet of a financial service provider such as the Post and to intervene if necessary. In 90% of countries, postal financial services are regulated. This means that the legal environment for postal financial services worldwide is well established on paper. The question for the Post is then who is in charge of enforcing it, and for which products. For instance, in Comoros, the Post reports to the line ministry for postal services and to the central bank on a monthly basis for account-based services.

The figure on page 54 shows that the financial sector regulator does not supervise postal financial

Figure 44 – Who regulates postal financial services?



Note: Graphs in this section do not necessarily reflect the actual regulation, but represent the Post's perception of the regulation relating to postal financial services and partnerships.

Source: postal financial inclusion survey, 2012

services in only 36% of the countries that responded. This seems to be a reasonably good proportion, and it has changed a lot in the past ten years, with central banks increasingly willing to control postal financial services. This is a positive trend which will be worth monitoring over time.

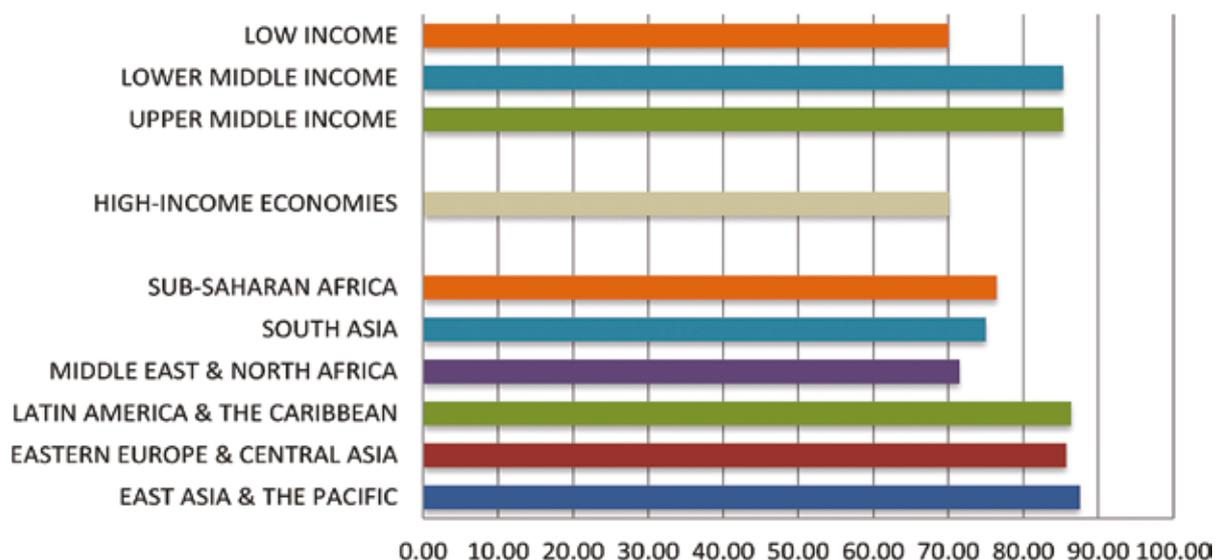
One of the key challenges faced in particular by countries that have poor governance levels and which provide account-based services without supervision from the central bank is the suppression of savings and current accounts deposits. Over time, these have been used to pay salaries, or have even been stolen at different levels of the postal organizations. In many cases, the Post is not in a position to refund those accounts, and the actual balance in the accounts is less than the nominal balance. In some cases, the state has to fund

the missing part of the accounts. In Gabon, this was a necessary step that had to be undertaken prior to the launch of the postal bank. Any plan to launch postal financial services, to modernize them, or to formalize them into a postal bank required these deposits to be available again. In that sense, the example of Cameroon is quite telling. There, only 5% of balances were available; the rest had disappeared. In Niger, postal savings were shut down in the early 1990s because of this issue.

This challenge can be solved by supervision from the financial regulator, process automation, and increased internal controls, which unfortunately are still missing in the least developed Posts as we have seen above.

Another important topic is the separation between savings and other services as has been seen in the ring-

Figure 45 – Postal operators' perception of legal framework (does your country have agency banking guidelines?)



Note: Graphs in this section do not necessarily reflect the actual regulation, but represent the Post's perception of the regulations relating to postal financial services and partnerships.

Source: postal financial inclusion survey, 2012

fencing section above. In some countries when the Post was not regulated by the central bank, expenditures of the Post such as salaries were borne by the savings bank or the postal giro centre accounts.

2. A “light” banking licence to accommodate for postal savings

In the case of postal savings, a “light” banking licence or a banking licence limited by scope to savings should be enough, since the entity will not engage in loans (see more on limited banking licences in section II, Business models). Investments must be limited to government securities or other bonds which can guarantee the safety of deposits. A “light” banking licence can ensure segregation of savings and deposit balances from postal operations and from treasury. The central bank should not ask the Post to apply for a full banking licence, since this would be too costly, as we will see in the business model section.

3. Agency banking guidelines allowing Posts to open accounts on behalf of a bank

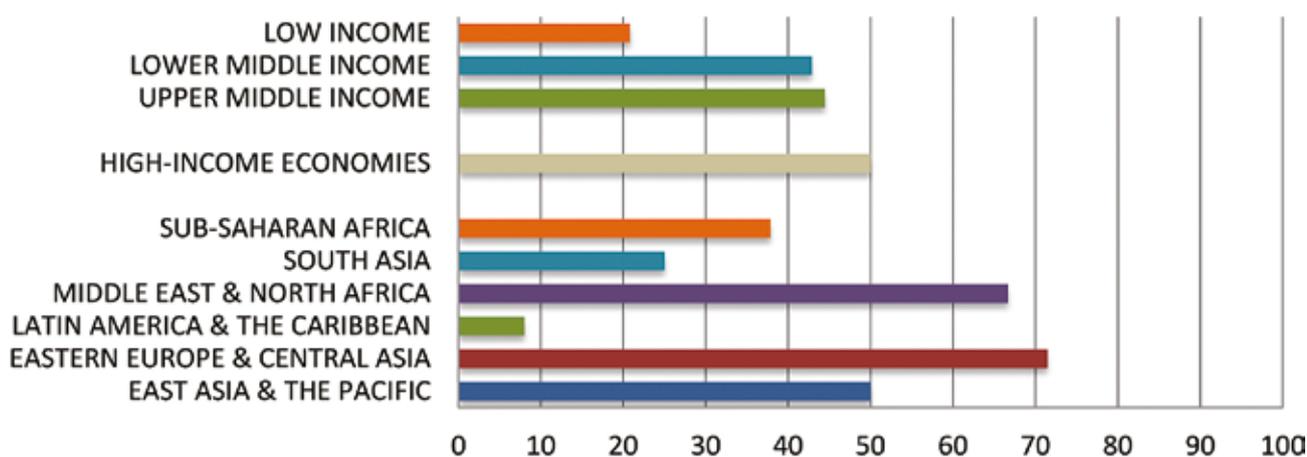
For the Post to be able to offer financial products in partnership with a bank or other financial institution, a legal framework must exist for it. This usually comes in the form of agency banking guidelines or directives issued by the central bank. Ideally, guidelines should allow agents to open accounts on behalf of the financial institution. This is the case in the most evolved frame-

works such as that of Brazil. Other countries, such as Colombia, struggled to allow banking correspondents to open accounts on behalf of banks, mainly owing to a question of Anti-Money Laundering prevention, which is a major issue in that country. Only a person hired by the bank was allowed to open accounts (even if it were a student hired by the bank). However, since last year agents are allowed to open accounts on behalf of their principal. This is a positive regulatory improvement that should be followed by many Central Banks which are still limiting the use of agents to cash-in and cash-out. What the graph below shows us is that, in the view of the Post, agency banking guidelines are very much present throughout the world. In ECA, EAP and LAC, almost 85% of respondents think there are agency banking guidelines or laws in their countries. This is mostly due to the fact that Posts often do not require agency banking guidelines to become a partner with a bank or another service provider. We found this to be the case in our interviews with Posts in Latin America. In many countries, for instance in Belize, the postal operator told us that because it was a government department, it could directly request the central bank for an ad hoc agreement to be an agent for a financial service provider.

4. Allow insurance agents

Insurance companies should be allowed to use channels other than their own offices to deliver their products, Posts being one of those delivery channels.

Figure 46 – Postal operators’ perception of legal framework (is the post allowed by law to partner with insurance companies?)



Source: postal financial inclusion survey, 2012

It is interesting to note that 27 countries out of 123 responding offer insurance services. And out of these, only 17 are postal operators from developing countries. In terms of legal framework, the ECA and MENA regions are the ones where Posts are most likely to be able to partner with an insurance company in order to perform transactions on its behalf, such as collecting premiums or delivering payouts after a claim is processed.

This is an exciting sphere which should be explored further in the future, since Posts can be a great delivery channel, in particular for insurance companies entering the micro-insurance market, or in general in the retail life and non-life insurance market. Recent missions to Laos and Tanzania have shown that several postal operators are already engaged on this path, however, much needs to be done to adapt the offer and improve the

partnerships. Indeed, in those two countries the post offers motor insurance, which tends to be expensive and for a relatively better off fraction of the population. The development of easily understandable and marketable micro-insurance products for the mass market can be quite successful if using the post as a delivery channel. (more detail on insurance partnerships can be found in the chapter on Business models above).

5. Direct access to national retail payment systems

In order to provide financial services directly and more affordably, without having to go through a settlement bank, and thus to be able to compete with banks on an equal footing, Posts should be included in the list of market participants that are allowed to have direct access to national retail payment systems, as long as the Post can meet the same conditions as the other participants in the system. This is an important requirement to ensure safety in the system.

6. Allow to issue electronic money (if requirements are met)

Finally, for Posts looking to launch their own mobile-based postal financial services, it is important that the e-money framework allows the postal operators or their financial services branch to issue electronic money, if they meet the requirements³⁰. This is the case for postal giro centres in West Africa, under the 2006 e-money directive from the regional central bank (West African Central Bank – BCEAO)³¹.

For now, only a limited number of countries have issued electronic money regulations. This is an important point, since it opens the possibility for central banks to take this into account when drafting regulations and broaden the e-money framework for Posts to participate in it, if they meet the same requirements as for other providers.

However, as mentioned before, the legal and regulatory framework is an exogenous factor on which the Posts have little margin for action. The factors mentioned are not preconditions for developing postal financial services. They represent a framework which determines the possible business model options available to the Post.

I. Marketing

Marketing is another major challenge for postal operators. Postal operators are not used to competing for clients, given their history as postal monopolies. Therefore, the concept of promoting services and adapting them to

the needs of the different segments of the population is a strong challenge for many Posts.

1. Promotion of products/brand

Banks and other financial providers tend to invest a lot in developing their image and branding their products to the general population. The first step is for customers to know the bank, and then to know the products. For the Post, the issue is not so much brand retention, since Posts tend to be well positioned in that sense, but for people to know that there are financial services at the Post, and how these services can fulfil their needs. In some cases, after a modernization process has been completed, the need exists to reposition the postal brand, because it is often still associated with “snail mail” and bureaucratic procedures.

A study in Benin showed that virtually no one in the general population, and only just over half of clients of the postal giro centre, knew what products the Post offered. This means there is a lack of communication to the general public about the services on offer at the Post which should be addressed.

2. Understanding clients' needs

In relation to the above, it is interesting to note that Posts usually deploy few activities linked to understanding clients' needs. The traditional passive approach for postal services consisting of waiting for clients to come seems to apply also to postal financial services. Little attention is paid to segmentation of the population and adapting the product offer to the needs of the clients. Interestingly enough, those postal operators that have turned into banks (Morocco) or want to compete against banks (Senegal) are paying increasing attention to the needs of their customers.

The use of focus groups and potentially some quantitative surveys prior to creating a new product should be considered to better understand the needs of customers. This can in turn allow the Post to segment its client base and adapt the products not only to the general needs but to customize them according to the target segment. For this, some customer relationship management (CRM) tools can be introduced.

In Burkina Faso, the Post received a grant from the Bill & Melinda Gates Foundation to improve its role in financial inclusion. Part of that grant was directed to establishing a segmentation of the clientele and CRM tools.

Despite these examples, the postal operators who are taking a client-centric attitude are few and apart and a lot more can be done in that sense if funding sources could be identified.

J. Flexibility (opening hours, adaptation to needs)

Finally, in a competitive environment such as that of financial services, and branchless banking services using correspondent banks or agents in particular, the Post

³⁰ Central Banks should ensure that Posts meet the criteria to issue mobile money before providing the non-objection.

³¹ www.bceao.int/IMG/pdf/INSTRUCTION_N_o_01_-_2006_-_SP_DU_31_JUILLET_2006.pdf

seems a relatively inflexible solution. Indeed, the concept of agent banking is based on providing convenience to the customer by bringing the services closer to home, but also at convenient hours.

In that sense, the Post is very convenient because of its rural outreach, but has inherited administration hours in most cases, and is not particularly flexible on opening hours/days; in fact, it offers almost the same schedule as banks. This is where other agents, such as small shops or gas stations, become a better option for partnering banks.

In many cases, opening hours cannot be changed, but flexibility can come in the form of the use of postmen for cash delivery and cash collection, as in the case of Bangladesh. There, BanglaPost has equipped its postmen with POS terminals and launched a prepaid card which can be read in the terminals. Today, the rural population can withdraw money from their account when their postman comes. This is true flexibility.

Likewise, the deployment of POS terminals or mobile post offices using mobile trucks, as in the case of Togo, is an example of a postal operator answering the flexibility challenge.

Case study 9: Mobipost in Togo

In a country with an 85% unbanked population and vast rural areas with no bank presence, the Post has innovated by using mobile trucks to deliver services even closer to people. The mobile office consists of a truck with a computer, a GSM modem and a safe. It travels closer to the client, and it is connected to the Internet via the mobile network. The operations offered are opening of accounts, transfers and money transfers, government payments, bill collection, and payment of benefits.

A specific contract was signed for payout to beneficiaries in rural areas in a recent partnership between the Post and the World Bank through the Ministry of Grassroots Development. Over eight months, this project opened 11,500 accounts with 492,651 USD paid to beneficiaries. With regard to electronic money transfers, the initiative mobilized more than 900,000 USD of remittances in rural corridors, which shows the importance of this service.

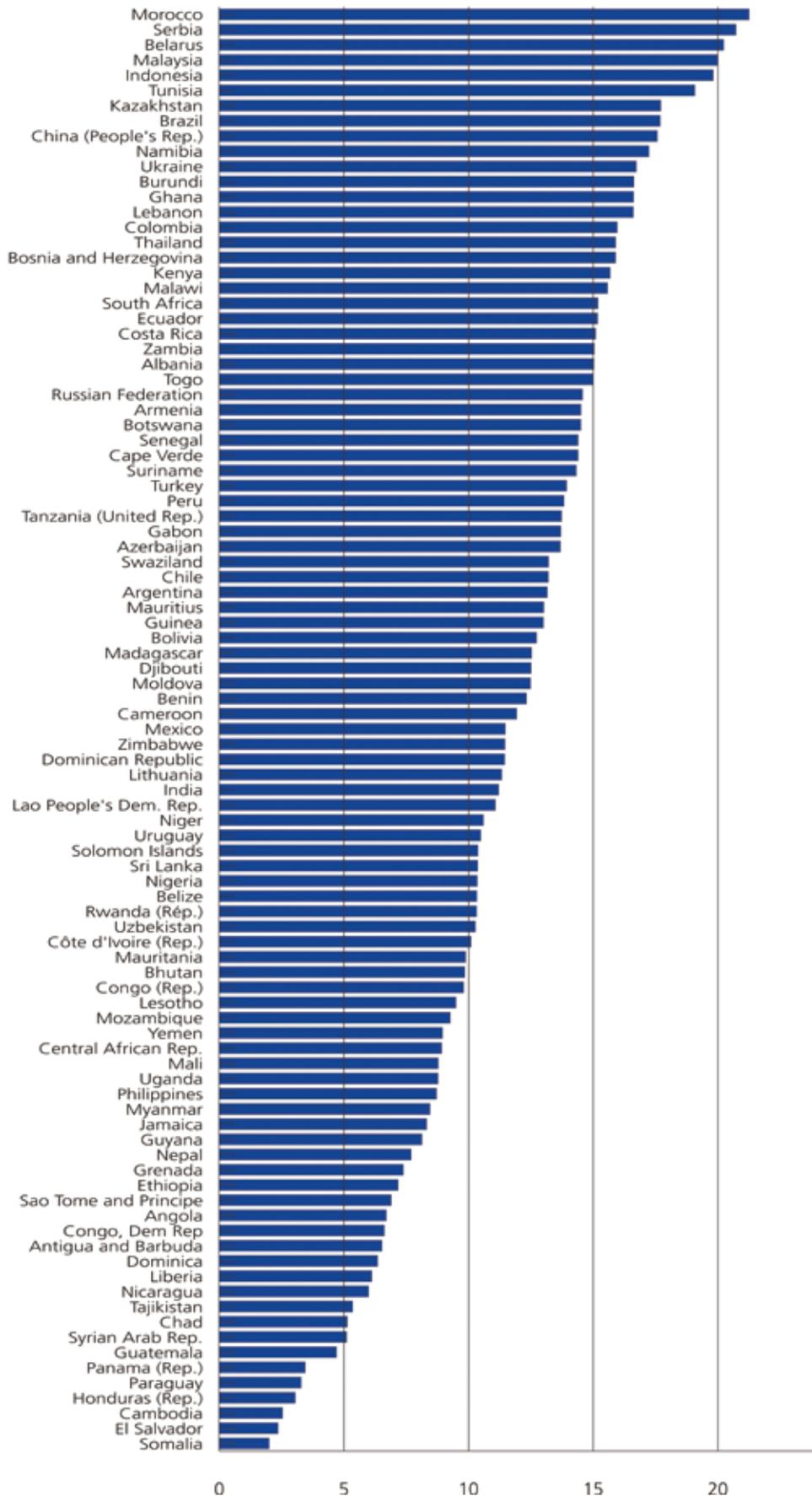
This success however required several factors, among which the robustness of the management system was key.

K. Conclusions: Setting up a Success Factor Index and Global Ranking of Countries

The key issues identified above are success factors when the indicators point in the right direction. Therefore, if we attribute a specific weight to each of the indicators we can construct a success factor index. The success factor index is intended to represent the capacity of a postal operator to become a lever for financial inclusion. It can become a formidable tool for decision making and for posts and governments to benchmark themselves against other postal operators in the region and in the

world. There are three main components to the success factor index reflecting some of the key categories presented above: in the section on key issues: i) Capacity (Network, Staff, and Financial Capacity), ii) Automation, iii) Legal and Regulatory Framework. We selected these three categories because they are the most relevant. Also, since these dimensions are easily quantifiable we have solid data for each of the indicators. Each of the three components is in itself an index built on a series of weighted indicators which to our knowledge best reflect reality.

Figure 47 – Global ranking according to postal financial inclusion potential (min 0; max 24)



Source: postal financial inclusion survey, 2012

IV. CONCLUSIONS AND OPPORTUNITY MAP FOR FINANCIAL INCLUSION

One of the objectives of this report was to understand which countries were willing and able to deliver financial inclusion, and what are the factors that determine this ability.

The analysis presented in this report allows us to distinguish four groups among Posts according to their characteristics and the role they can play in financial inclusion: i) advanced Posts; ii) emerging Posts, i.e. Posts which are able and willing to foster postal financial inclusion; iii) modernizing Posts, i.e. postal operators which are willing but partially unable; and iv) least developed Posts, i.e. postal operators facing major challenges to develop postal financial inclusion. It is worth noting that these categories correspond to a financial services vision and not to a postal vision.

As a conclusion, we will describe each of the groups and provide some recommendations for postal operators, governments, financial regulators and donors to achieve maximum impact on financial inclusion using postal networks.

Advanced Posts

Most Posts in this category are the postal operators of high-income countries, where the Post still has a role to play in financial inclusion. These countries generally enjoy high levels of financial inclusion, however, there are pockets of poverty and exclusion, particularly concentrated among certain groups that are under-served in terms of financial services. This is especially true of migrant populations and religious or ethnic minorities that are economically disadvantaged. For example, in France, a large proportion of migrants are banked through the postal bank, which has the mandate to open accounts to everyone without any sort of discrimination.

Recommendations

To postal operators:

In the case of high-income countries the recommendation is to continue offering low cost but high quality products for the vast majority, and to launch or put emphasis on government payments, savings and international remittance transfers, which are services the underbanked and migrants most need.

This can help the financial inclusion process in the developing world especially if international transfers are made on an account-to-account basis. In that case, we can expect a “double-banking” process, where the migrant is banked in the destination country and the migrant family also becomes banked in the receiving country. The UPU promoted Worldwide Electronic Postal Payment Network to connect post offices around the world is a useful tool in this endeavor thanks to its low implementation cost as well as its legal and

regulatory validity in all the countries signatory to the Postal Payment Services Agreement. In that sense, advanced postal operators such as Italy are developing partnerships with emerging and developing posts to link remittances to cards and accounts to foster financial inclusion in both the destination and home countries.

Emerging Posts: able and willing modern Posts

In some countries, postal operators have led a transformation process, using their own resources or with some government support. Those countries, first and foremost the BRICS (Brazil, Russia, India, China and South Africa), and other emerging and developing countries such as Indonesia, Turkey, Morocco, Namibia, Colombia, Kazakhstan or Serbia, have managed to bridge the gap between paper and electronic, monopoly and competition, mail-centred and financial services-centred postal operations. In that group of countries, postal operators have all the cards in hand to become key drivers of financial inclusion. They are well connected, have well-trained staff, are often operating at a profit, and are appropriately modernized. Interestingly enough, there is no common business model for this group of countries and this may reflect the fact that there is no golden business model for postal financial inclusion. The choice of the business model depends on the context. Members of this group are not necessarily higher middle-income countries but actually span all income levels, although low-income countries are hardly represented. In many instances, emerging Posts are much more innovative than the advanced Posts in terms of postal financial inclusion. The advent of affordable technology and enabling legal environments, combined with pressing needs to increase financial inclusion, have created interesting windows of opportunity that these Posts are taking advantage of, which is not necessarily the case of advanced Posts.

Recommendations

To postal operators:

Countries in this group should first decide which is the business model best adapted to their context, since as we said before there is no perfect model for all posts. In general, Posts that do not offer any type of financial services at all, or offer only paper money orders, can evaluate the possibility to become cash merchants for deposit-taking institutions (banks, MFIs, SACCOs, etc.) to start learning the trade. Those offering basic cash-merchant services such as G2P payments and bill collection could try to launch a strong partnership with one or more banks in which account opening and possibly loans are involved. Finally, those that already offer account-based financial services directly, but are not licensed by the banking supervisor, could look into improving the provision of services by requesting some sort of licence from the central bank, which is a positive move for consumer protection.

An important point for emerging posts is that they

should try to better understand the client's needs, and adapt their products accordingly. Pricing is a third issue for this group of postal operators. The core business model of the Post is to combine low cost with high volumes. Offering basic packaged offers at low cost specifically geared towards the unbanked can be a solution to high prices which in some cases can become prohibitive for that segment of the population. By bundling products and offering a basic response to needs, Posts can reduce their delivery cost and thus the price to customers, while facilitating the sales pitch for the tellers thus increasing uptake. Part of the big advantage that the post has is that existing infrastructure and staff can be leveraged to deliver financial services with wide outreach. This is much cheaper than starting a delivery infrastructure from scratch.

To governments:

Governments should continue to invest in their postal operator, including in upgrading the network of postal agents to be able to deliver financial services through it. Authorities should ensure that postal banks or postal financial services spin-offs start to or continue to use the postal network as long as it offers good customer service at a reasonable price to the postal bank. Additionally, government should ensure that enabling conditions are provided for posts to become partners of choice for all types of financial service providers. Finally, they could try to channel their government payments through the postal network by depositing pensions or social transfers into postal accounts, where these exist, through other banks that use the postal network as cash merchants, or on reloadable prepaid cards distributed by the Post.

To central banks:

For Posts in this category that have or want to develop account-based services, the central bank should create a "light" banking licence, for the Post to offer only certain products, mostly for the lower and middle income segments of the population. Central banks should also provide an enabling regulatory framework for Posts to be able to become a delivery channel for those services that it does not offer at present. This consists mainly of an agency banking framework, and potentially also the possibility for Posts to issue electronic money if they meet the requirements imposed on other providers. In this case, it is important that the central bank allows the Post to be the "bank" partner in a mobile wallet deployment, if it meets all the requirements for this function as is the case in Tunisia today. Finally, Posts should be allowed, under certain conditions, to be direct participants in the national retail payment system.

Modernizing Posts: postal operators that are willing but partially unable

The modernizing Posts are postal operators which see the importance of diversification into financial services

and have a certain number of success factors on their side, but face serious constraints which make them unable to move firmly into postal financial strategies. These postal operators tend to represent countries in the middle and low income groups.

In most of these countries, there is a modernization process under way, but yet not complete, in response to the loss of market share in the logistics business and the reduction in mail volumes. However, for most of these countries the modernization process is not yet complete. Among the modernizing Posts we can cite countries such as Kenya, Tanzania, Ethiopia, Mexico, Peru, Uzbekistan, Mauritania, Burkina Faso, Philippines and the Solomon Islands.

Recommendations

To postal operators:

For this group, the recommendation is to adopt a two-pronged strategy: on the one hand, looking for additional resources from governments, donors and internally, in order to modernize as quickly as possible, in particular in terms of automation and training of staff; and on the other, launching partnerships with external operators to learn from them how to provide financial services efficiently. Posts that already offer account-based services could envisage applying for a "light" banking licence from the central bank to offer savings directly, and to sign partnership agreements with commercial banks to offer loan products that can complete the offer and ensure consumer retention.

Minimum computer literacy levels should be required when hiring front office staff, and priority should be given to personnel with good customer relations.

For middle and top management of postal financial services, the Post should try to hire top performers with previous work experience in the financial sector.

To governments:

After a careful analysis of costs and expected social and financial return on investment, authorities could invest heavily in their postal operator, in particular to increase basic connectivity of all full-fledged post offices and training of staff. Investments should also be planned to automate operations and back office by acquiring an IT platform or developing it in house, if skills are available. In these countries, government payments could be transferred in cash, through accounts at the post or other banks who use the postal network as cash merchants, or through reloadable prepaid cards at the Post.

For this group, posts should link with the broader financial inclusion community in the country. A postal financial inclusion committee could be created, composed of the line ministry for Posts, the central bank and the postal operator, which would set goals for the Post and monitor progress against those objectives, as well as providing it with the appropriate tools to attain the goals.

To central banks:

Central banks should try to develop an enabling legal and regulatory environment for the Posts to upgrade and modernize their offer of financial services by providing sufficient regulatory openness. For instance, in the context of modernizing Posts, it is extremely important to allow agent banking, and in particular the ability for Posts to open accounts on behalf of the bank or the MFI.

Least developed Posts

Finally, the least developed Posts are the ones which, owing to their limited financial capacity, have not been able to modernize, and have for the most part entered a vicious circle, where lower mail volumes translate into losses, and negative results entail lower investment, and thus lower levels of modernization and low capacity to offer financial services.

Even though postal operators from countries in the low income group are over-represented in this category, some postal operators from middle income countries, especially in Latin America, such as Nicaragua, Paraguay or Venezuela (Bolivarian Rep.), for instance, can also be found.

For the most part, least developed Posts usually do not offer account-based financial services. They have either been separated from them, as in Mali, or have never offered such services, as in Tajikistan.

*Recommendations**To postal operators:*

These postal operators tend to be in countries where financial inclusion levels are dismal, and the non-postal financial infrastructure does not reach into the rural areas. Therefore, the need for financial inclusion is high, but the Post is not in a position to answer that need owing to lack of resources and capacity. In that case, the recommendation is for the Post to launch basic payment services such as domestic remittances and bill collection. The Posts in this category can also look into a joint venture with a bank, an MFI or an MNO that is interested in using the existing physical network, and to have the partner fund the upgrade of the physical and IT infrastructure together with the training of the staff.

To governments:

Line ministries should pay increased attention to the Post. This begins with recruiting capable and dynamic top management for the Post. Also, comprehensive modernization and diversification plans should be elaborated and agreed upon by the Post and the trade unions, as a pre-condition for government to renegotiate debts. The government should then renegotiate debts of the postal operators towards government agencies, and reconstitute postal savings when these have been used to cover operational losses. Creating a new postal enterprise that inherits only the assets of the Post can be a solution in certain situations. The business plan should be prepared by the line ministry in

agreement with the postal operator for submission to donors and international financial institutions to revamp the Post and modernize it, so that it can offer financial services in rural areas.

To central banks:

Central banks should make sure that Posts offering account-based services which are in this category fall under their oversight, if not their supervision. However, it would be worth considering risk-based approaches for the supervision of postal financial services to avoid undermining the comparative advantage of the post in terms of offering services to the vast majority.

Recommendations to donors

Below are some recommendations made specifically to donors, according to the modernization level of the postal operator in the country of intervention.

Emerging Posts:

Regarding emerging posts, small investments can deliver strong inclusive results. Indeed, these posts have most of the tools they need to be active channels for including the unbanked. In these countries, the development community could have the most impact in terms of financial inclusion by funding exchange visits and technical assistance on some specific topics such as client knowledge, marketing, development of new products or new channels such as mobile or POS, and even pricing strategies.

Modernizing Posts:

Assessment missions should be funded to assist modernizing Posts in establishing their postal financial inclusion strategy and the action plan to implement it. Donors should consider funding the implementation of the recommendations that come out of such diagnostics. These plans provide the donors with a diagnostic and a prioritization of actions concerted with the Post.

At this stage of postal development, a key necessity that can deliver strong results in terms of financial inclusion is for donors to finance the upgrade of IT systems and basic connectivity since most modernizing posts are in the process of shifting from manual to automated systems. These improvements will translate concretely in better managed post offices that thanks to these improvements can become real actors of financial inclusion either by facilitating the partnerships with banks and other financial service providers or by allowing them to offer real-time financial services if they want. Here technology, such as GSM enabled POS and mobile phones can lower costs of basic connectivity..

Least developed Posts:

Development partners have a key role to play in these countries. Indeed, the need exists for donors to fund "regeneration" plans prepared by line ministries with the assistance of experts, from the UPU or other institutions,

and in particular the financial inclusion part of those plans.

Technical assistance is needed to identify the key priorities, given limited resources, and to accompany the Post in its modernization process.

At all stages of postal development, for donor support to be effective, the post should own the reform process. The UPU understands the difficulty of making recommendations given the wide diversity of contexts and among postal operators. Therefore these recommendations should be taken as suggestions to start a reflexion and we invite all interested stakeholders to discuss them in more depth in an ad hoc working group, which the UPU could lead to set up a list of general principles for postal financial inclusion.

Potential Results of the action plan

If 51 postal operators offering savings accounts can bank a billion people, the other 141 member countries of the UPU, which do not offer savings services including strongly populated countries such as Nigeria, Russia, Mexico, Ethiopia, or the Democratic Republic of Congo, could easily provide a gateway to financially include at least 500 million unbanked people directly or through partnerships with banks.

In those countries where postal savings banks are already present, a lot can still be done to increase the number of unbanked people accessing formal financial services through the post. At least 500 million people could be banked in the next ten years if existing postal financial services were modernized and invested in by donors and governments alike. For instance in Pakistan, a country with a population of 173 million there were only 1.4 million accounts at the postal savings bank.

Finding the double equilibrium point between sustainability and impact, and between postal financial inclusion and safety

Finally, this report has sought to find the right balance, or what we could call the equilibrium point, between two policy objectives necessary for postal financial

inclusion to become a reality worldwide: the impact on financial inclusion on one side, and the sustainability of the postal operator on the other. Postal financial services need to be profitable, indeed without sustainability of postal operations, postal financial inclusion will not last. In the meantime high costs may prevent the unbanked from entering the financial system even through the postal network which is closer to them geographically.

There is another equilibrium point that needs to be found between allowing the post to offer all sorts of financial services, directly or as an agent of financial service providers, and the financial inclusion objectives of governments and central banks alike. Indeed, Central banks and governments are often interested in promoting financial inclusion, however, in several cases post offices are limited by regulation to a certain range of services and are not always entitled to some of the prerogatives of banks such as issuance of electronic money or payment system access. Policy makers and financial regulators must find the right mix of regulatory openness for Posts offering financial services, either directly or as agents, while requesting for risk management improvements and that Posts target not only, but mainly, the first three quintiles of the population.

As a final conclusion, we can see that postal financial inclusion is not a static sector to which we can apply a single strategy in order to achieve results. It is an ever evolving arena where different players interact to deliver financial inclusion in a cost-efficient way through the existing postal network. Postal operators, governments, donors, financial service providers and regulators all have a role to play, and should try to coordinate their agendas around a single outcome: financial inclusion.

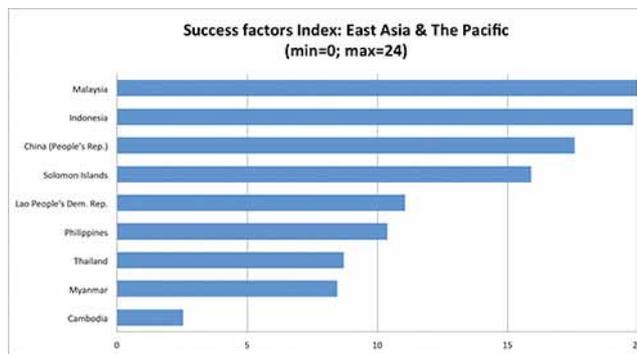
V. REGIONAL SNAPSHOTS

In this section we use the success factor index to present briefly how different regions fare in terms of postal financial inclusion.

EAST ASIA AND THE PACIFIC

Snapshot

Population	1,961 million
Percentage of adults with accounts	55% ³²
% Respondent Posts offering financial services	100%
Postal density	16,065 inhabitants per PO
Postal savings accounts	895.66 million



Regional average success factor index: 12.72

EAP has one of the strongest average success factors among the developing regions. Emerging Posts such as Malaysia, Indonesia, China and the Solomon Islands have achieved a score above 15 and are in a better position to offer postal financial services than other countries in the region. The two top performers – Malaysia and Indonesia – stand at around 20 points in the success factor index, which is one of the best scores in the developing world, surpassed only by Morocco, Serbia and Belarus, and comparable with Tunisia.

Key issues

- Network is a major success factor for the EAP region. The postal network in the East Asia-Pacific region comprises 70,248 permanent post offices (19% of the total number worldwide). As regards postal coverage, the situation is fairly satisfactory overall.
- EAP is also a good performer in terms of modernization. However, the disparity within the region is quite strong. Emerging countries such as China, Indonesia, Malaysia all have automation indicators, cash management indexes and computer literacy levels equal or comparable to those of high income economies. However, least developed countries such

as Laos and Cambodia lag behind in these factors. This dichotomy is very clear across most indicators in the survey, and is probably one of the key regional characteristics.

Business models

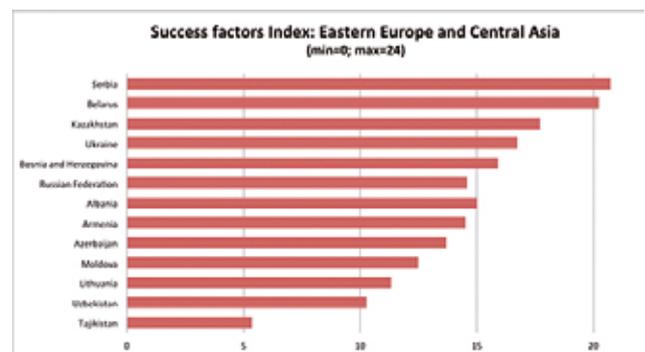
- According to the typology presented in section II, the business model most used in the EAP region is BM 1 (cash merchant), and in particular BM 1a – CM for remittances, BM 1b – CM for government payments, and BM 1c – CM for bill collection.
- China is an exception, since it has a universal licence postal bank and provides the whole range of financial services. The Postal Savings Bank of China is by far the largest postal bank in the world, with 475 million customers.

EASTERN EUROPE AND CENTRAL ASIA

Snapshot

Population	407.5 million
Percentage of adults with accounts	45% ³³
% Respondent Posts offering financial services	100%
Postal density	4,723 inhabitants per PO
Postal savings accounts	3.41 million

Serbia, Belarus and Kazakhstan have the best ranking in terms of success factors for financial inclusion, with an index above 17.



Regional average: 14.46

On average, the Europe and CIS region has the highest average among all developing regions. It is worth noting that the region has three of the top ten countries in terms of postal financial inclusion potential. The best posts in terms of capacity are Serbia, Belarus, Kazakhstan and Ukraine since they have strong network presence, well-qualified staff, and respectable profitability levels. On the contrary, according to our capacity index, the postal

³² *Measuring Financial Inclusion: The global Findex database.* Asli Demirgüç-Kunt, Leora Klapper. World Bank, 2012

³³ *Measuring Financial Inclusion: The global Findex database.* Asli Demirgüç-Kunt, Leora Klapper. World Bank, 2012

operators of Tajikistan might face some challenges to develop postal financial services.

Key Issues

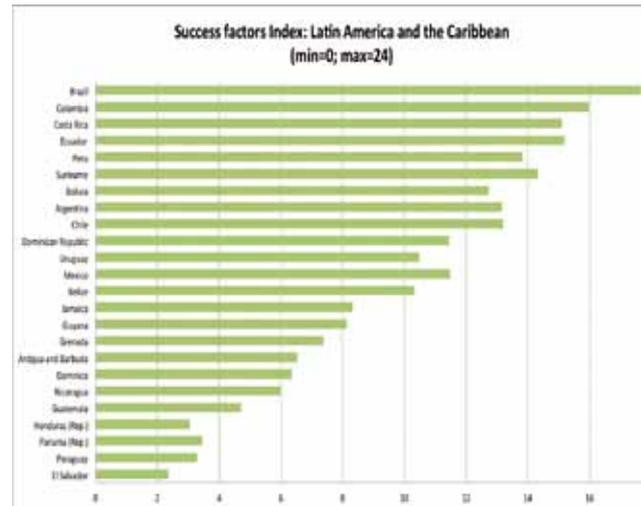
- In all CIS countries, except for Uzbekistan, the postal network is very dense and capillar. In Russia, there is one post office for every 6,000 people but one bank branch for every 150,000 people. Within the region, the share of the Post over the total network's access points is 69.3%, this means that more than 2/3 of the total contact point network belongs to the post, and all the banks together only represent 30% of access points and are thus absent from most semi-rural and rural areas. In Serbia, the post is in a disadvantaged position in terms of network. However this fact motivated the post to invest in technology and training and became a fierce competitor to other financial providers.
- The Europe and CIS region characterizes itself by a strong profitability sub-index. Most posts are either at the equilibrium point or making strong profits, as in the case of Serbia or Albania with more than 20% profitability.
- Although all posts are offering financial services, only 64% claim they are training their staff in postal financial services.
- The automation indicator shows us that most countries in the region have automated management information systems and back-offices (all respondent countries except for Uzbekistan and Tajikistan).
- Low connectivity is still a major constraint, in particular in sparsely populated countries in Central Asia and the Caucasus.

Business models

- Most postal operators offer only payment services. As a matter of fact, Business model 1 - Cash merchant- is the preferred business model for financial services in the region. Postal operators are particularly strong in domestic and international remittances as well as in government payments.
- Some countries, however, have developed their postal savings. Kazakhstan has adopted BM 5b (postal bank with limited licence from the Central Bank), after several licence upgrades obtained from the central bank.
- Azerbaijan has adopted BM 5c (universal postal bank licence) after a 17 million USD investment in Azerpost and is offering account services. However, the rate of uptake has been slow and the government is taking new measures to ensure success of this key project.

LATIN AMERICAN AND THE CARIBBEAN Snapshot

Population	572 million
Percentage of adults with accounts	39%³⁴
% Respondent Posts offering financial services	81%
Postal density	7,357 inhabitants per PO
Postal savings accounts	10.27 million



Regional average: 9.77

The average in LAC is well below that in EAP and in ECA. Countries such as Brazil, Colombia, Ecuador, Costa Rica and Suriname have achieved a score above 14 and are in a better position to offer postal financial services than other countries in the region. Brazil managed is ahead of the rest of the countries in the region in terms of its potential for financial inclusion with a score of 18. This is the result of its modernization drive and the reform process it has been going through. Despite this, stands at only at 17.7 points in the success factor index, compared with 22 for Morocco in the Arab region, 20 for Malaysia in Asia Pacific and 21 for Serbia in the Europe and CIS region.

Key Issues

- Staff computer literacy tends to be higher here than in other regions.
- The legal and regulatory framework is rather enabling in terms of implementing the partnership business model as in Brazil. In many countries in LAC, there are guidelines for agency banking. However, agency-banking guidelines differ from country to country, and in places such as Ecuador, agents are not allowed to open accounts on behalf of the bank.

³⁴ *Measuring Financial Inclusion: The global Findex database.* Asli Demirgüç-Kunt, Leora Klapper. World Bank, 2012

- Trust is a key challenge for most postal operators in LAC. In many instances, the post ceased to be a priority for governments and many postal operators in the region have not received much government investment over the last 20 years. This led to issues in the quality of service for the mail business directly affecting the public trust towards the Post and also its financial services. Brazil and Chile are among the few countries that have managed to retain high levels of trust in the region.
- Low automation is an issue; most processes are still performed manually, including back office functions..
- There is a poor network presence compared to regions which are more developed in postal terms such as ECA or EAP. This should be compensated by increased utilization of postal agents for financial services.

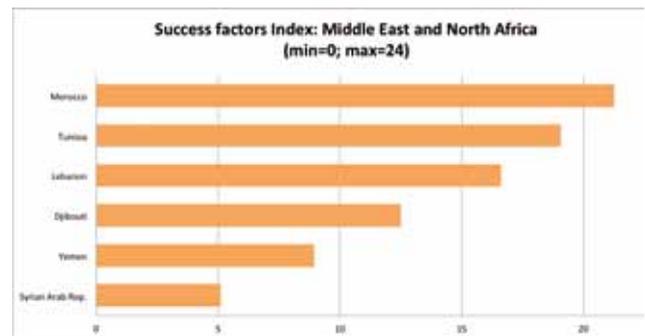
Business models

- Most Posts did not offer any postal financial services until a few years ago. The development of proprietary electronic international transfers within the region and with Spain through Correogiros – the UPU IFS brand in the region – has started to change that state of affairs thus increasing the number of countries using Business model 2 – proprietary transactional services.
- The main business model used in the region is the cash-merchant business model (BM 1). Increasingly, postal operators in LAC are turning to partnerships for government payments (BM 1b). In Jamaica for instance, the Post performs 2 million G2P payments per year. Acting as a cash-merchant for utility bill collection (BM 1c) is the second most used model. Correos de Ecuador for example works for a bill payments integrator which provides the platform and the contracts with the utility companies.
- Colombia acts as a cash-merchant for one of the largest banks in the country, Bancolombia, using the cash merchant for banks and MFIs business model (BM 1g). Indeed, Bancolombia does not allow the postal operator, 4-72, to open accounts on their behalf and has not created a partnership with the Post. These are the main differences with the Brazilian model.
- The UPU considers Brazil to be the best example of an exclusive partnership with a bank (BM 3e), given its role in banking more than 10 million people over the last decade. Countries in the region which have similar characteristics to those of Brazil before the partnership are looking to emulate this model. This is the case of Costa Rica, Chile, Ecuador and Uruguay. The designated operators from these countries are among the best performers for the success factor index. There is therefore strong potential for these countries to adapt the lessons learned from their colleagues in Brazil and to allow financial service providers to use their network to deliver financial inclusion.

MIDDLE EAST AND NORTH AFRICA

Snapshot

Population	337 million
Percentage of adults with accounts	18% ³⁵
% Respondent Posts offering financial services	100%
Postal density	10,780 inhabitants per PO
Postal savings accounts	47.56 million



Regional average: 13.92

The average in MENA is quite high. Countries such as Morocco, Tunisia and Lebanon have a combination of success factors which seems quite good above 18 in all three cases. However, this is the region with the lowest representation the countries in the region which responded tend to be the ones with the better performance in terms of financial services. Other countries in the region do not offer financial services at all and would probably have qualified lowly in the success factor index.

Key Issues

- Modernization index is higher on average in the MENA region than in all other developing regions.
- Automation levels tend to be high among respondent countries, except in Syria.
- Among the respondent countries, diversification of financial services is quite developed with services ranging from savings, to mortgages, to insurance. However, there are other countries that did not respond which offer almost no financial services.
- In terms of network compared to banks, the region does not fare too well, however it does quite well in terms of connectivity for which it has the highest levels of all regions.
- Qualifications of staff tend to be high in the respondent countries

³⁵ *Measuring Financial Inclusion: The global Findex database.* Asli Demirgüç-Kunt, Leora Klapper. World Bank, 2012

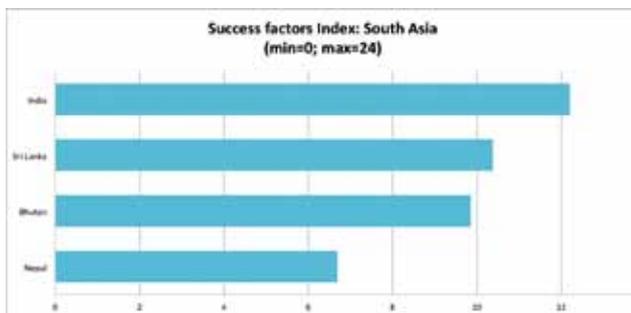
Business models

- This region has the strongest presence of business model 4 - unlicensed postal savings (50% of the surveyed countries in the region).
- However, in the Gulf countries many posts do not offer any type of postal financial service and if they do, it is often as a cash-merchant for money transfer operators.
- In general, in terms of business models this is a region of strong contrasts. Some countries such as Morocco are particularly advanced in terms of financial services and have obtained licenses from their Central Banks to operate savings and loans, while other countries, albeit wealthier, offer few or no financial services.

SOUTH ASIA

Snapshot

Population	1,656 million
Percentage of adults with accounts	33% ³⁶
% Respondent Posts offering financial services	100%
Postal density	9,182 inhabitants per PO
Postal savings accounts	254,2 million



Regional average: 9.7

The regional success factor average in South Asia is surprisingly low, given the long-lasting presence of postal financial services in the region and their strength. For instance, India, which is the second largest postal savings institution in the world, after China, only managed a score of 12 on the overall success factor index. This can be attributed to the low automation levels in the region, where most of the back-office is still done manually and savers still use the passbook. In terms of financial capacity, the region fares pretty poorly since all of the respondent posts except Bhutan have negative net results.

Key Issues

- South Asia has the largest postal network of all regions, due to an especially well developed infra-

- structure in India, which accounts for 25% of all post offices worldwide. In all countries, networks are far-reaching and usually present at the village-level.
- Posts are mostly operating at a loss. Given the size of the infrastructure to be maintained, especially in India, this is understandable but should be addressed.
- Underperformance in terms of automation. Automation levels will improve rapidly since full computerization is going on in Pakistan and India and should bear fruits in the near future. In India only 10% of Post offices were online.
- Staff could be more qualified. Computer literacy levels are low and there is little training in postal financial services going on, especially if compared to other regions.
- Low wages in the postal sector sometimes derive in issues of corruption or embezzlement in some countries in the region, especially for the disbursement of government payments.

Business models

- The region is quite homogeneous in terms of business models. All postal operators except Bhutan and Maldives offer postal savings without a license.
- After an exchange visit to India organized and funded by the UPU project, Bhutan is now on track to develop microfinance services (savings and loans) through a network of more than 100 online community offices which the state has given them the management of.
- In India and Sri Lanka the Post office also offers insurance products directly. These are interesting cases because they remain some of the few examples of posts offering their own insurance products and could be taken as examples by other countries looking into diversifying their financial services offering.

SUB-SAHARAN AFRICA

Snapshot

Population	875 million
Percentage of adults with accounts	24% ³⁷
% Respondent Posts offering financial services	95%
Postal density	68,133 inhabitants per PO
Postal savings accounts	8.94 million

³⁶ *Measuring Financial Inclusion: The global Findex database.* Asli Demirgüç-Kunt, Leora Klapper. World Bank, 2012

³⁷ *Measuring Financial Inclusion: The global Findex database.* Asli Demirgüç-Kunt, Leora Klapper. World Bank, 2012



Regional average: 11.37

The average in Sub-Saharan Africa is not very representative given the huge disparities within the region. Countries such as Namibia, Burundi, Ghana and Kenya all fare above 15 and possess a good potential for postal financial inclusion. However, on the other hand, post-conflict or conflict-ridden countries such as Liberia, Somalia or Democratic Republic of Congo fare pretty low, since the post is not a priority given the huge efforts needed for peace keeping and reconstruction.

Key Issues

- Postal networks although small compared with postal operators in other regions, are larger than the banks in most places, and there is a lot of appetite from the private banks to use these networks to increase outreach given the lack of other large organized networks such as retailers.
- Training in Postal financial services is provided quite extensively throughout the region. However, it is hard to assess the quality of the training.
- Staff issues are a major challenge for many postal operators in the region. Low salaries and lack of training in customer service tend to derive in poor quality of service compared to other financial service providers or delivery channels.
- Financial issues such as liquidity in the offices and breaching of the ringfencing rule are a key constraint for the postal operators to be partners of choice for the financial service providers.

Business models

- In terms of Business models Sub-Saharan Africa is very diverse, however together with EAP and the MENA regions it has a large proportion of countries offering postal accounts directly. In most cases, these are offered without a full-banking license, and fall in the Business model 4 – Unlicensed postal financial services. The fact that many postal operators are already offering postal savings in a region where financial inclusion is so important is an extremely encouraging factor. Examples of this can be found in South Africa but also in most of francophone Africa.
- The cash-merchant model is also predominant throughout the region and this is likely to continue given its characteristics as a low investment and relatively high income generating option for posts which are facing tough challenges in the core mail business.
- In this region the partnership model is mostly used with completely or partly independent Postbanks or former postbanks which have been rebranded into government savings bank. This is the case in particular in Tanzania where the Postbank still uses the network and in Zimbabwe with the partnership between the People's Own Savings Bank and the Post. Some postal operators such as Cape Verde are taking shares in government savings banks which will use the network. This is an interesting business model to be explored.

	BM 0	BM 0	BM 1.A CM remittances	BM 1.B CM G2P	BM 1.C CM Bill Collection	BM 1.D Insurance Companies	BM 1.E CM Mobile Money	BM 1.F CM Bank or MFI for loan transactions	BM 1.G CM Banks and MFIs for account transactions	BM 1	BM2.A Offers domestic remittances on its own	BM2.B Offers international remittances on its own	BM 2	BM 3.A Partnership Insurance	BM3.B Partnership with Mobile Network Operator	BM 3.C Partnership Regional	BM 3.D CM for many, partnership with one bank	BM 3.E Partnership model with Bank (Brazil and Colombia)	BM 3.F Partnership model with a postbank partly or completely independent	BM 3	BM 4.A Unlicensed Postal Accounts	BM 4.B Unlicensed Postal Insurance	BM 4	BM5.A Microfinance License	BM5.B Limited Postal Bank License	BM5.C Universal Postal Bank License	BM 5	
Latvia			●	●	●			●		●	●	●	●	●						●	●							
Luxembourg			●		●					●											●		●					
Malta				●	●					●	●	●	●															
Netherlands																												
New Caledonia			●		●	●				●	●	●	●				●				●						●	●
Poland					●	●		●	●	●	●	●	●															
Portugal			●	●	●	●			●	●	●	●	●															
Slovak Republic			●		●					●	●	●	●						●		●							
Slovenia			●	●	●		●	●	●	●	●																	
Spain			●		●	●		●	●	●	●																	
Switzerland				●	●	●		●		●	●	●	●									●		●				
Trinidad and Tobago			●							●																		
United States of America											●		●															
Total	8	8	86	80	90	36	22	32	30	116	77	49	88	10	3	1	3	10	16	34	33	8	34	3	2	7	12	
Percentage	5.8	5.8	69.4	64.5	72.6	29.0	17.7	25.8	24.2	83.5	62.1	39.5	63.3	8.1	2.4	0.8	2.4	8.1	12.9	24.5	26.6	6.5	24.5	2.4	1.6	5.6	8.6	

●¹ Business Model in project (not yet fully implemented)

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