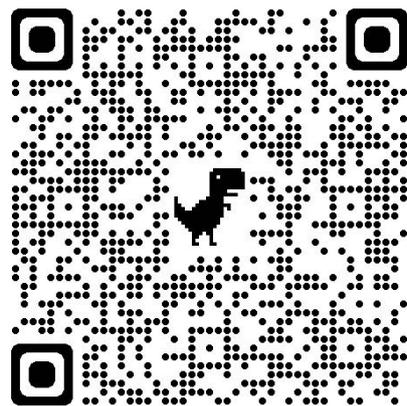


INNOVATING DIGITAL FINANCIAL SERVICES FOR POSTS

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



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EXECUTIVE SUMMARY



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

The rapid changes in the financial inclusion landscape have impacted all players in the ecosystem. New entrants (mobile network operators (MNOs), fintechs, microfinance institutions) are setting the stage for innovation in the digital financial services (DFS) space, compelling traditional players, such as Posts¹, to play catch-up to meet customer needs. These drastic changes and rapid innovations in the financial inclusion space have left most Posts at a crossroads: either seek to transform, or risk being edged out of business by the competition.

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

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

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

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

It is therefore unsurprising that Posts are among the oldest institutions with an established physical delivery network. They rely on an extensive, cross-country logistic network, augmented by last-mile coverage through postal carriers to bring postal services, and increasingly postal financial services², to citizens' doorsteps.

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

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

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

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

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

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

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

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

Successful Posts have defined the following four key strategies:

Re-invent the customer journey.

Leverage the power of data.

Redefine the operating model.

Build digital-driven postal operations.

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

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

Establishing an ecosystem beyond postal services.

Integrating physical and digital processes.

Re-orienting transaction flows.

Reimagining the core functions of the Post.

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

Digital savings and deposits.

Domestic and international remittances.

Payment and cash-in/cash-out services.

Micro-insurance and micro-investment.

Digital credit.

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

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

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

Strengthen technology, internal processes, and human capital.

Innovate processes to cater to the unique needs of customers.

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

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

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

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

Foster a robust enabling environment to facilitate DFS.

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

Strengthen regulations promoting consumer protection.

Enable competition and promote a level playing field.

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

Download the full report from:

<https://www.upu.int/en/Universal-Postal-Union/Activities/Financial-Services/Research>

UNIVERSAL POSTAL UNION

International bureau
Weltpoststrasse 4
3015 BERNE
SWITZERLAND

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

