

AccessFinance

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POSTAL FINANCIAL SERVICES AND FINANCIAL INCLUSION

By David Porteous of Bankable Frontier Associates and Isabelle Huynh, Postal Policy Specialist in the World Bank's Global Information and Communication Technology Department.

Today, the majority of people in developing countries are excluded from access to basic financial services. The goal of promoting *financial inclusion* has moved higher up the policy agenda in many countries, supported by new evidence that increased access to financial services can promote faster economic growth and also reduce poverty and income inequality.ⁱ

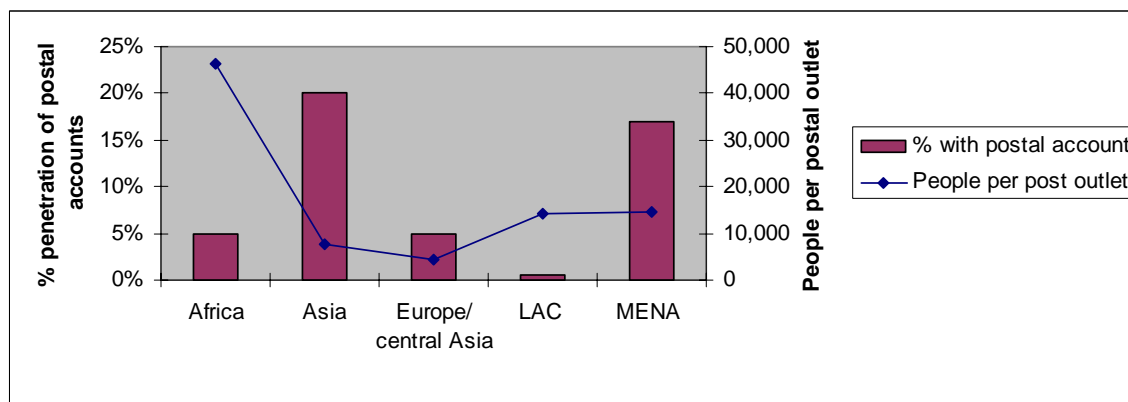
In many developing countries, postal networks already offer several basic financial services, such as money transfers and savings accounts. Moreover, postal networks have widespread coverage even in rural areas which the formal financial sector usually does not directly reach. There are almost twice as many post offices and postal agencies (500,000) as commercial bank branches (275,000) in the developing world. How best to use and develop these large networks for expanding access to financial services is an important question for policy makers to consider.

Understanding how postal networks are being used to expand access to financial services across a wide range of countries was the objective of a World Bank study carried out by ING Bank in 2004. Researchers reviewed the role of postal networks across 60 developing countries in five regions, with in-depth analysis of seven.ⁱⁱ Summarized in a recently released World Bank Discussion Paper,ⁱⁱⁱ the findings provide insights into the current status of postal financial services worldwide, as well as useful lessons as to how these services may be expanded to both improve basic postal operations and deliver more and better financial services to the poor in developing countries.

What role do postal networks play in providing financial services?

The coverage of postal networks varies considerably by region, as shown in the blue line in Figure 1 below (a lower number means a larger outreach). The best regional coverage is to be found in Europe and Asia which have one postal outlet per 7500 and 4350 people respectively. Similarly, while it is estimated that some 15% of the world's adults, some 390 million people, have a postal savings or transmission (or giro) account, the regional penetration varies from a high of 20% in Asia, owing to popular financial service offerings in India and China, to a low of less than 1% in Latin America, where the postal network is less pervasive.

Figure 1: Differences in the size of the postal network and penetration of postal financial accounts



In addition to geographical penetration, the range and types of postal financial services offered also differ considerably by region. Most post offices offer payment products, such as remittances or bill payment, which were originally developed using the postal infrastructure as a means of moving money, even to remote areas. Many networks also evolved to offer savings facilities either through postal savings accounts, the deposits in which were often invested in government bonds (as commonly in Africa); or through the sale of Treasury bonds to the public, acting as an agent of the government (as in India & Pakistan). In some

cases, postal financial services also included insurance and retail credit distributed on an agency basis (as in Morocco, where Poste Maroc developed a partnership with Wafa Assurance to distribute a pension insurance scheme through postal outlets). Countries differ enormously as to the institutional and legal structure through which postal financial services are offered. (See Table 1 below.) Although they are offered *through* the postal network, postal financial services are not necessarily provided *by* the post office. In some cases, the postal bank and the post office are one legal entity; in others, the postal bank is a separate legal entity which may be either publicly or privately owned. In the latter case, the postal network distributes the financial products of the bank on an agency basis, which may be exclusive or non-exclusive. While deposit taking is normally regulated by the central bank or a national financial regulator, postal deposit-taking functions are sometimes regulated by the postal ministry and/or the ministry of finance and therefore not subject to standard banking requirements.

Table 1: Different institutional permutations for postal financial services

		Ownership of postal network (infrastructure)	
		Public	Private
Ownership of the postal financial services	Public	May be provided by the post office (e.g. India or Yemen) or by a separate entity, which may use other distribution channels (e.g. Romania, Sri Lanka, Uganda).	Not common in developing countries outside of eastern Europe.
	Private	Agency model—may be exclusive to one provider or multiple (Brazil, UK, Malaysia).	May be an agency model or may rely on other distribution as well.

While there is no clear correlation between the institutional arrangements for the offering of postal financial services and their scale of outreach, there are good reasons for at least separating the legal entity providing financial services (the postal bank) from the post office itself. The appointment of distinct boards of directors and separate management and accounting functions for the postal bank and post office generally improves accountability and performance within and between these two different service lines, even if the postal bank continues to use the postal network for distributing its products as before. Similarly, capacity building (especially at the management level) and strengthening of information and accounting systems, along with electronic interconnecting of postal outlets, are all prerequisites for an improved management and accountability of the financial services system overall. Setting-up the postal financial services entity as a (fully or partially owned) subsidiary to the postal operator allows optimal usage of postal outlets through complementary strategic approaches

Changes such as these have been implemented successfully in postal reform projects in various countries. Japan Post, by some measures the largest retail financial institution in the world, is soon to be split into four separate entities. Even the massive China Postal Savings Bureau is in talks to develop a separate compliant financial institution through which to offer postal financial services. In some cases, such as Cameroon, Niger and Senegal, previous mismanagement of postal deposits has necessitated refinancing the separate new postal bank at the outset, under a subsidiary model. While postal banks as deposit taking entities must start—and remain—solvent, refinancing can place a heavy fiscal burden on governments and may require support from multilateral or bilateral funding agencies.

How to expand access to financial services through the postal network: the high potential of public-private partnerships

Beyond geographic proximity, effective access requires that the product features be appropriate to the group targeted and the product itself must be affordable.^{iv} Unless proximity, suitability and affordability are all taken into account, the quality of access provided will be partial at best.

In developing accessible products that meet the needs of poor communities, postal networks will also have to use discretion in finding their appropriate niche within the broader financial system. Postal banks will undoubtedly be more credible in their traditional areas of operations, which are transfers, payments and savings, and fewer successes are reported in the area of retail banking. However, by providing a basic transaction account which any person can open easily and use affordably, postal banks can create a useful platform from which electronic payments can be made cost effectively and may open the way for other financial services to be offered by existing banks or insurers on an agency basis (or various public-private partnerships schemes) which otherwise would not be able to do so.

The sunk cost nature of postal network infrastructure may enable additional transactions to be priced on an attractive marginal cost basis, making the services more affordable to low income clients. However, a low cost pricing strategy may conflict with other government priorities if the postal network’s objective is mainly to raise revenue to cover operating deficits. Reversely, if the national strategy is to increase the household savings rate by making savings more attractive through paying higher interest on postal savings, this would reduce the net contribution which postal financial services may make to the post office as a whole.

The Discussion Paper summarizes a number of studies of countries in which where an integrated approach, adapted to specific national factors, has helped to expand access to financial services. Several examples are highlighted in the box below.

Recent successful examples of expanding access to financial services using postal networks

Brazil: The Brazilian post office, Correios do Brasil, selected a private bank (Bradesco) as a partner to offer postal financial services through its postal outlets by a competitive tendering process. The Brazilian BancoPostal has a high brand rating and has helped to provide points of financial presence for the range of products supported by Bradesco even in remote areas.

Kazakhstan: Kazpost launched deposit taking activities in 1999, and by 2003, 800 000 small depositors, or about 25% of the adult rural population, had opened accounts. However, despite this progress, Kazpost has followed an agency route, generating revenues from offering other financial services.^v

South Africa: The Postbank, a separate division of the Post office, participated with major retail banks in launching a new basic debit card account offering in 2004 under the 'Mzansi' brand. To date, the Postbank has been the biggest single issuer of new Mzansi accounts, and recent research has confirmed that a majority of the more than two million new Mzansi account holders were previously unbanked.^{vi}

Uganda: Following a central bank-mandated restructuring in 2002, Postbank Uganda is a now a tier 2 deposit taking entity with its own branch network. It has also pioneered connections to microfinance entities which are widespread in Uganda as credit providers in order to take deposits from their clients, although according to CGAP, a consortium of public and private agencies working to expand access to financial services, the results have been mixed.^{vii}

The way forward to greater financial access

While country experience with postal financial services has differed in nature and outcome, some major lessons learned from successful postal finance programs include:

- In general, the offering of financial services and the operation of the postal network should be accomplished by separate legal entities, with the regulation and supervision of postal banks falling under the national bank regulator.
- Public postal banks should concentrate on developing and offering financial products which are not being offered by the private sector and avoid offering similar products to similar markets, including retail credit, unless under a well targeted public-private partnership with microfinance entities of banks.
- Improved governance and accountability are key to reinforce trust in the postal network; this calls for investments in management and information systems along with significant capacity building in human resources.

Postal networks are certainly not panaceas for addressing financial exclusion in developing countries but, if their role is carefully considered and well executed, they can play a significant role in promoting financial inclusion.

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ⁱ Beck et al (2004)

ⁱⁱ Egypt, Kazakhstan, Namibia, Romania, Sri Lanka, Uganda, Vietnam

ⁱⁱⁱ www.worldbank.org/ict/publications - "The role of postal networks in expanding access to financial services". This study serves as a reference to a ViewPoint Note prepared with the help of Mr. David Porteous, on which this article is based, to be published soon.

^{iv} Porteous (2004), Annexure B

^v See Kazakhstan country paper available via

http://iris37.worldbank.org/domdoc/PRD/Other/PRDDContainer.nsf/WB_ViewAttachments?ReadForm&ID=85256D2400766CC785257242005E988C&

^{vi} See results of FinScope South Africa 2006 survey

^{vii} Uganda: via http://cgap.org/docs/uganda_assessment.pdf