



10TH WSBI POSTAL SAVINGS BANKS FORUM

NOVEMBER 19-20, 2007 - BRUSSELS

**AN ERA OF DIVERSIFICATION – IMPACT, OPPORTUNITIES
AND CHALLENGES FOR POSTAL SAVINGS BANKS**





EXECUTIVE SUMMARY

The 10th WSBI Postal Savings Banks Forum took place on November 19-20 in Brussels under the chairmanship of Mrs. Totsie Memela-Khambula, Managing Director of South Africa Post Office Savings Bank. This event brought together the representatives of postal operators and postal (savings) banks from 13 countries (Armenia, Comoros, Czech Republic, Gabon, Korea, Madagascar, Mongolia, Romania, Senegal, South Africa, Sri Lanka, Tanzania and Tunisia) and special guests from the Universal Postal Union (UPU), the Belgian Bankers Academy (BBA), Swedbank, the Spanish Savings Banks Association (CECA), the Consultative Group to Assist the Poor (CGAP) and Eurogiro.

The traditional model of post financial services involved in the passive collection of deposits from the public and handling basic payment services has made its time. Post offices are fast becoming a popular financial services distribution channel with a particular focus on the mass market. The theme of the Forum: “*An Era of Diversification – Impact, opportunities and challenges for postal savings banks*” provided the participants with an excellent opportunity to exchange views and share experiences.

As it is the case for all market players in the banking sector, postal savings banks have embarked in an era of diversification, influencing their institutional, business, strategic and customer environment. There are both opportunities and challenges behind these changes and the Forum explored the impact of the evolving market context on postal savings banks worldwide, and identified ways and means to adapt at strategic and operational level:

- ✓ Diversification was welcomed as a driving force for the evolution and the modernisation of the savings banks’ model. The ongoing restructuring process must however reconcile the increased efficiency required and the improvement of the level of access to finance on a more sustainable basis.
- ✓ Cross-selling was identified as a promising diversification strategy to better serve the clients’ evolving needs. In this regard, remittances were described as the 1st exposure to formal banking services, which provide opportunities to give access to a more adapted and sophisticated offer to migrants and their families.
- ✓ Customer Relationship Management (CRM) was finally defined as a key factor in making diversification a success. Postal savings banks agreed that a change of mindset was critical to strengthen customer relationship and improve clients’ retention, which is in line with their mission of providing accessible financial services to the general public.



MINUTES

1. Official Opening

⇒ Ms. Anne-Françoise Lefevre, Head of Institutional Relations Department welcomed the participants. Reflecting on the theme of this Forum, she explained why postal savings banks have embarked in an era of diversification, which is influencing their institutional, business, strategic and customer environment and then acknowledged that there are both opportunities and challenges behind these changes.

⇒ Mrs. Totsie Memela-Khambula, Managing Director expressed her great pleasure to officiate as chairperson for this meeting and recognized this privilege given to Post Bank South Africa. She thanked the World Savings Banks Institute for proposing her this position and for the warm welcome the participants enjoyed at this unusual cold autumn time.

The diversification process is a driving force for the evolution and the modernisation of the savings banks' model. Therefore, she wished the Postal Savings Banks Forum explored the impact of the evolving market context on postal savings banks worldwide, and identified ways and means to adapt at strategic and operational level.

⇒ The Chairperson proceeded with opening procedures and submitted the meeting Report of 2006 and the draft Agenda of this Forum to the approval of the delegates. Both documents were approved with slight changes.

2. Diversification, a driving force for the evolution of the postal savings banks' model

The traditional model of post financial services involved in the passive collection of deposits from the public and handling basic payment services has made its time. Post offices are fast becoming a popular financial services distribution channel with a particular focus on the mass market.

The challenge is actually how to reconcile the restructuring process of postal savings banks, which brings about new commercial opportunities and the institutional changes, with their traditional mission of providing basic access to financial services for the general public?



2.1. Overview on current reforms and opportunities in postal financial services (Mr. Hugues Kamewe, Adviser - WSBI)

This presentation highlighted that the trend towards the diversification of the range of financial services is often driven by key reforms that in some cases have led to the creation of autonomous postal banks to sustain this commercial approach.

There is a combination of factors (corporate, sector-wide, market and policy), which are making the reform of postal financial services necessary and inevitable. The main lessons from past and ongoing experiences point out that:

- postal financial services reform is a key component of the broad postal sector reform agenda and will always be implemented simultaneously with other reform actions supporting core postal services.
- There is no *one size fits* all reform models but a variety of experiences

2.2. Roundtable discussion on the reform of postal financial services, opportunities and challenges

The discussions highlighted the importance of reform ownership by all stakeholders (i.e; the mother company, the Government, the staff, etc.) to create positive dynamic.

Institutional separation between the Post and Postbank (new brand, be it a subsidiary scheme) is often a good signal that a reform agenda does exist.

Public-Private Partnership, either through commercial arrangements (e.g; distribution agreements, loans) or equity deals can speed up the reform process.

2.3. Impact of institutional changes on business development: Case study of the Tanzania Postal Bank (Mr. Michael B. Nwankandile)

Institutional changes have brought very positive developments at the Tanzania Postal Bank, among these are:

- introduction of good governance practices as prescribed by policy documents
- broadening the product range (e.g. loans, money transfers, etc.)
- extension of TPB own network with refurbished branches
- Technological changes (ATMs, POS)
- Computerisation (Equinox software, networked branches, etc.)

All these gains led to a very fast growth in the business volume. Customer deposits have grown seven folds during the period 1992-2007 while lending has been introduced successfully and is expanding remarkably. These changes resulted into the improvement of the revenue base. Future plans target amongst other key objectives:

- increasing customer deposits by 20% per annum
- achieve a quality loan portfolio of 30%
- enhance return on equity to at least 15%
- increase core capital from retained earning to USD 8 million
- optimize the use of ICT and improve TPB brand awareness and image in the public



2.4. UPU role, mission and partnerships (Ms. Odile Pilley - Postal financial services Expert, International Bureau)

The UPU is a specialized UN agency in charge of stimulating the development of efficient and accessible universal postal services in order to (i) facilitate communication (ii) foster trade (ii) and promote economic and social development worldwide. The postal sector is vital to a modern globalised world for various relevant reasons:

- Post Offices are good for economic growth because of the positive effects of infrastructure development on growth
- A UPU's research shows that posts matter as much as other factors which help explain economic growth across countries

The UPU integrated strategy on trade and development encourages the deployment of physical, electronic and financial networks at international level and among UPU member countries. This strategy will optimize the use of postal networks and electronic technologies to lower transaction costs.

The UPU is active in the field of migration and remittance. Indeed, postal operators can play an important role in helping to lower the costs of remittance transfers and improve the services.

This presentation recalled the significance of South-South migration, which according IOM estimates counts for 50% migration movement and 30-45% of remittance flows.

The speaker stressed that partnerships are crucial for reaching the Millennium Development Goals and "Connect the World" objectives. The UPU vision for postal payment services aims at:

- Providing all world inhabitants with access to efficient, reliable, secure and affordable electronic fund transfer services.
- Creating a worldwide electronic payment network

To carry forward this vision, the UPU has launched a technical platform with a network for secure electronic data interchange between designated operators based on UPU standards. The International Financial System (IFS), which is one of the applications operated on this platform has gone live in several countries.

Finally, the speaker identified complementarities in the work of both organizations and called for cooperation, empowering postal organizations and promoting financial inclusion.



3. Strategy of diversification: cross-selling

This section questions how to increase customer's reliance on the bank through the provision of wider and diversified financial services and products?

3.1. Cross-selling: an Overview of the concept (Mrs. Kerstin Conradson, Senior Manager – Swedbank)

Cross-selling is about enhancing sales to existing customers. The reason why companies used this technique is mainly because they want to match customer surveys with their own customer development plan. Nowadays customers' satisfaction has become the keystone for achieving profitability in any commercial business.

Cross-selling applied pro-active and structured working methodologies. These include the segmentation of the customer base (e.g. private customers grouped based on their income, deposits/loans, corporate customers according to their turnover, number of staff, etc.).

Marketing tools used for cross-selling are various and include: direct mails, newspapers and magazines, television and radio, telemarketing, internet banking, telephone banking, retail and branch exposure.

To conclude, successful cross-selling requires a selling culture.

3.2. Cross-selling Remittances

Because migration and remittances have become a global phenomenon, this item questions how to build on remittances for selling other banking products.

In a statement Mr. Rodrigo Rato, former Managing Director of the International Monetary Fund pointed out that: "... *remittances can serve as a stepping-stone for expanding access to other financial services both in originating and receiving country.*"

⇒ ***A receiving side perspective : Cross-selling – case study Banc Post, Romania B (Mrs. Catalina Balan, Network Executive Manager)***

Banc Post was established in the aftermath the liberalization of the economy and the financial sector in particular in former socialist economies. At inception in 1991 the bank was set-up as a joint stock company with state owned capital. In the 2002, Banc Post was fully privatized and is now part of the Eurobank Group, which owns 78% of shares. The bank ranks sixth (6) in terms of assets and number of branches on the Romanian market and is part of the top ten (10) banks in terms of deposits and loans.

Remittances inflows to Romania stood at around EUR 5.28 billion in 2007 out of which Banc Post channeled nearly EUR 125 million. Remittances bring to be bank customers at low cost of acquisition and expose them to other financial products and services.

This results in excellent opportunities for cross-selling the wide range of retail banking products (e.g. consumer loans, student loans, mortgage and home equity loans, insurance, deposits, debit & credit cards, etc.). Obviously, happy customers create profitable relationships.



⇒ *A sending side perspective : Cross-selling - case Study – CECA, Spain (Ms. Idoia Maramendi, Head of International Development, Spanish Savings Banks Association)*

The rationale of this approach is to build on migrant remittances to sell other banking products and services. There are more than 200 million worldwide and almost 500 million people depending on remittances. Migrants represent potential new customers for any financial institution at destination.

Today, migrants are approximately 4 million in Spain and represent nearly 10% of the whole population. And these figures are expected to continue growing with 7-8 million migrants expected by 2020. More than EUR 5 billion remitted in 2006 (30% through financial institutions)

CECA has studied migrants financial behavior and drew the following conclusions:

- new clients are profitable within 12-18 months
- migrants are entrepreneurs and usually work with just one institution
- they are the future of the Mortgage Market in Spain (700,000 migrants own their houses in Spain, new residents will demand 40,000 houses/year in the next 3 years)
- More than 15% of the mortgages granted by the Savings Banks are given to migrants

Remittance is a “Must service” because it creates a win-win trend: Good for the financial institution/Good for the migrants/Good for home country.

There is no money in remittance transactions as such, in particular for financial institutions. Money Transfer Companies (MTO) make money on exchange rates’ commissions. Spanish savings banks’ strategy values remittances as a commodity used as a commercial marketing tool. The lucrative business is in gaining new customers and cross-selling other banking products and services. Among new residents: -65% hold a current account/46% a debit card/21% a credit card/ and 18% receive their wage in an account.

Finally, the speaker invited WSBI Members to cooperate in the framework of the International Remittance Capability Agreement (IRCA) as a common platform to support the development of migrant remittances.

4. Key for Diversification Success: Knowing Your Customer needs – Customer Relationship Management (CRM)

CRM is a tool to improve the knowledge about the customers and is very instrumental to provide adapted products and services.

4.1. Current and Future status of CRM (Mr. Marc Mortier, Expert – Belgian Bank Academy)

This presentation provided valuable insights to the benefits of applying CRM in a retail banking environment. Customers are the most important asset of a successful organization and therefore, CRM is identified as a key factor in making diversification a success.



CRM requires setting-up a customer-centric organization built trustworthy relationship. CRM is not just a sales tool with short-term orientation, but it is rather the core piece of an overall strategy that requires a long-term planning and strong organizational commitment and investment.

For postal savings banks, this necessarily requires a change of mindset to strengthen customer relationship and improve clients' retention, which is in line with their mission of providing accessible financial services to the general public.

4.2. What does CRM mean for postal savings banks? Case study of Korea Post

This presentation highlighted CRM strategy and marketing approaches applied by Korea Post. The CRM system implemented by Korea Post is a sophisticated technology platform which has required an investment of more than USD 250 million to build a consolidated database.

But, CRM is first a marketing tool. The system helps to support the marketing performance and therefore has to fit into the overall strategy of the bank. The system set up has also to match the size of the customer base. If a bank does not have a large customer base, CRM techniques are applicable at branch level.

5. Closing Ceremony

5.1. Remarks by the WSBI (Ms. Anne-Françoise Lefèvre)

In her statement, she highlighted major activities undertaken by the WSBI and potential benefiting postal savings banks.

- ⇒ Institutional reforms are crucial to the development of these institutions and should be pursued to create a favorable environment. The WSBI has engaged policy dialogue with the Universal Postal Union, the World Bank and the Central Bank of West African States to enhance awareness about the need to restructure postal savings banks.
- ⇒ The International Remittances Capability Agreement, IRCA has been launched at the occasion of WSBI October 2007 General Assembly with the objective to enable WSBI members to reap a bigger share of the remittance opportunity.
- ⇒ The WSBI has also adopted new statutory provisions on corporate governance, since there is a rising consensus at international level to recognise that one of the most important criteria to assess the strength of a banking institution is not its business model nor its ownership structure, but its commitment to good governance practices.

5.2. Chairperson final words (Mrs. Totsie Memela Khambula, Managing Director – Postbank South Africa)

She thanked the participants for creating a constructive atmosphere for discussions and exchange of views. A major lesson from this meeting results from evidence that diversification is a driving force for the evolution of the savings banks' model.



The restructuring process must reconcile the increase of efficiency and the improvement of the level of access to finance, on a more sustainable basis. Postal banks need to move away from a product-oriented organization and strategy towards a comprehensive client-driven approach.

She then encouraged the participants to value this knowledge in addressing the current challenges in their respective organisations.