

POSITION PAPER



A WSBI Roadmap for Postal Financial Services Reform and Development

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The postal sector is a critical part of a country's information and communication infrastructure and its role is crucial in the 'new economy'¹. Post Offices are also essential for social and financial inclusion, particularly in developing and emerging countries. Over 70 % of countries use post offices to deliver financial services² taking advantage of low operational costs associated with this infrastructure to achieve geographical and financial outreach.

Post offices worldwide exhibit one of, if not, the most extensive retail distribution networks with more than 660,000 points of sale, above twice the number of branches from commercial banks. Besides the mere numbers, if one takes into account the fact that a lot of these branches are located in peri-urban, rural and/ or remote areas, it becomes obvious that such a distribution tool presents huge opportunities that many countries have valued in offering entry level banking services to the public.

For instance, postal savings institutions in China and India offer zero balance accounts while the conditions for opening and maintaining basic accounts are affordable in most African countries to catalyse broad based financial access. A large proportion of these accounts display small deposit balance by national standards albeit the situation varies across countries (e.g. (i) Tanzania: 75% of customer accounts have balances below USD 15 and represent less than 5% of the total deposit base; (ii) average balance is below USD 45 in Tanzania, USD 50 in Uganda and USD 65 in South Africa).

The reform of the postal sector has been engaged in a number of countries, with a view to optimise the use of the network and to strengthen the efficiency and quality of the services offered to the public. The economics of this restructuring process encompasses various components: policy considerations and decisions, adaptation or development of a new legislative and regulatory framework, restructuring of public postal operators (PPOs) etc, and impacts the three strategic assets on which the postal sector is usually built on: infrastructure (essentially post offices), core postal services (collection and distribution of mail, parcels, and logistics aspects) and postal financial services (savings, payments and money order/transfer services, etc³). Strengthening the provision of postal financial services is therefore closely connected to the postal sector reform agenda, a complex process driven by political orientations and arbitrages between interests of different stakeholders' groups.

The World Savings Banks Institute (WSBI) as a global organisation bringing together 111 retail, regional and responsible banking organizations has a strong interest in the ongoing reform process

¹ The New Economy refers to the evolution from industrial/ manufacturing-based wealth producing economies into [service sector](#) economies driven by information and communication technologies.

² CGAP Financial Access 2009 <http://www.cgap.org/gm/document-1.9.38735/FA2009.pdf>

³ Postal financial services may also include insurance schemes, retail loans, pension payments, etc.

and discussions. A third of its total membership is made of postal savings institutions⁴ spread across developing, emerging and transition economies from Africa, Asia and Europe. And the provision of access to finance to all categories of the population, countrywide, usually forms their core mandate. WSBI is strongly convinced that the potential of postal networks in fostering financial inclusion is immense, and seeks to support an optimal use of their assets to successfully develop inclusive, sustainable and stable banking sectors, worldwide.

This Roadmap is a contribution to enrich the ongoing policy debate on the reform of the postal sector. It looks specifically after issues pertaining the restructuring of postal financial services. Based on a number of recent studies and on the WSBI experience, it outlines a number of “principles” which should underpin this sensitive exercise and the “ingredients” for its success. It is not a “one size fits all” solution though, but rather a checklist of critical items that should be considered if a country wants to implement a successful reform project.

1. Access to finance at the heart of a multi-dimensional postal financial services reform

Leveraging postal networks to deliver and strengthen the provision of financial services is intrinsically linked to the postal sector reform agenda. With declining mail volumes, the development of postal financial services is a promising avenue and maybe the future of the Posts.

However, national experiences have proven that the reform of postal financial services is a complex exercise and a source of controversies⁵ since it entails a broad set of changes within the Post Office and the postal sector, and requires a strong political will and management ability to strike a careful balance between the interests and expectations of key stakeholders (Post Office, labour unions, etc).

Postal financial services already play a important role in supplying savings and payment instruments to millions of people, micro and small enterprises (MSE) excluded from the mainstream banking sector. It is estimated that there are over 750 million accounts in various classes of financial institutions that are generally aimed at markets below the level of commercial banks, and that some substantial fraction of these institutions’ clients are probably poor or near-poor⁶.

Besides regular enterprise reforms, the reform of postal financial services has gained vitality under the access to finance (A2F) policy agenda. For instance, *the rural finance reform agenda steered by the Chinese Banking Regulatory Commission triggered the restructuring of the Postal Savings and Remittance Bureau in China, while the inability of Lesotho PostBank to provide credit services to the poor justifies ongoing preparatory work to apply in a near future for Tier one bank’s license.*

⁴ Postbank, postal bank and postal savings bank are concepts that cover different realities in different countries. This paper uses them invariably to designate financial institutions using post offices to distribute financial services with the objective to achieve outreach

⁵ No matter the case, there is often reluctance from established banks, as competition from post networks is not always welcome. The central bank’s attitude and regulatory environment could also add to the complexity of the project. However, the growing awareness from policy makers about the access to finance (A2F) challenge is changing this mindset. Erstwhile ideological opposition to postal savings banks is progressively replaced by a more pragmatic response: how to make them work?

⁶ Christen, Rosenberg and Jayadeva 2004

The recognition of the important role that access to financial services play for the achievement of equitable and inclusive societies and the potential for development of these services is a key dimension of the postal sector reform debate. The implications in terms of allocation of financial revenues and oversight of these services can be the source of political hurdles and disputes, but can also act as drivers to move the reform forward.

Needless to say that “de facto” restrictions encountered by postal institutions in accessing the country financial infrastructure have also provided compelling arguments in favour of this reform. Payment systems offer a typical example with postal savings banks often limited in participating to the clearing and settlement processes. Although not always justified by objective reasons, these regulatory limitations request responses since they seriously constrain postal savings banks in their efforts to expand their business.

2. A diversity of institutional set-ups to best fit the national contexts

Postal financial services are currently offered under a variety of business models, with in some cases many variants. They result from national political, social, economic development circumstances.

The traditional model of postal services administered by the Ministry or Department in charge of Posts still exist in a few countries (e.g. Kuwait, Yemen). However, this model has been revisited almost everywhere and Public Postal Operators (PPOs) established separately as state-owned legal entities. Under this architecture, postal financial services are often handled through one or a few operational units and managed by PPOs as government finance vehicles generally outside the scope of financial sector policies. A variant of this model establishes postal financial services as profit centres within the PPOs, as part of efforts to boost their performance or ahead of spin-off plans (e.g. Namibia, Vietnam).

Worth noticing is that in a number of countries where a payment function (postal checking services or giro services) has been established to complement the postal savings function the trend is to integrate both under the same operational units some times merged into a single entity that forms the postal bank. The rationale of these developments is twofold: (i) savings and payment services are basic functions for a bank and (ii) valuable synergies can be harnessed in this process.

Moreover, turning postal financial services into separate legal entities led to new models certainly better equipped to provide affordable and sustainable financial services through postal networks:

- ⇒ **Financial subsidiary of the Post Office:** The postal savings bank is established as a subsidiary of the PPOs sometimes transformed into a Group and, which may also own specialised subsidiaries in logistics, express mail, etc. (e.g. France, Germany, Morocco, Senegal, South Africa). *A n untypical case is the Philippines Postal Bank, which does not work through post offices although a subsidiary of Philpost.*
- ⇒ **Financial subsidiary in a Holding Structure:** So far Gabon and Japan have opted for creating Holding structures that own the strategic assets of the postal service (mail, financial services, network) all established as single legal entities. Here, the postal savings bank is a subsidiary of the Holding, the Post Office likewise. The overall coordination of the subsidiaries is under the responsibility of the Holding.
- ⇒ **Direct Government-ownership:** Many postal savings banks have evolved from the Post Offices and are now established separately with either a strong equity participation from the Government next to the PPOs (e.g. Tanzania) or are fully owned by the Government (e.g. China, Croatia, Kenya, Iran, Lesotho). Some postal banks operating under this model ended

up taking distance from PPOs and no longer operate through post offices (e.g. Cote d'Ivoire, Madagascar, Uganda). As such they look more like state savings banks.

- ⇒ **Joint-venture:** Whether as a subsidiary of the Post Office or in a Holding , there are also cases of postal savings banks set up as joint-ventures with technical or financial strategic partners (e.g. Belgium, Ireland). These scenarios exhibit the possibility for the Post Office or the Holding owning a majority/ minority stake in the postal bank, which could also be a co-owner of the postal network.
- ⇒ **Banking agent:** There are a few examples of partnerships at product level between the Post Office and a Bank to distribute some banking products through post offices. The postal bank is the result of an agency agreement whereby the Post Office avails its networks and earns commissions for the services rendered. A typical example is Banco postal in Brazil, a partnership between the Brazilian Post and Bradesco, a leading commercial bank, which generated 1.5 million new accounts over 5 years.
- ⇒ **Privatisation:** Predominantly in Central and Eastern Europe (e.g. Bulgaria, Czech Republic, Romania, Slovakia), postal savings banks have been incorporated and later sold to commercial banks. Since then, they do not always use the PPOs as agents for the distribution of their products.

The ultimate question is: which business model could be considered the best? The answer is simple and pragmatic. There is not “one size fits all approach” here. Not one single model prevails over the others and all of them have their own value and benefits although there are some common features required (e.g. legal and financial autonomy, independence of the management and commercialisation, see below). The best model is the one that works in the national context in the sense that it should match the expectations of all stakeholders. There is no indisputable evidence about an ideal model, and the effectiveness of any experience as well as the ingredient of success are country-specific.

3. Guaranteeing autonomy and independence to postal financial services entities

3.1. Legal and financial autonomy of postal financial services

Declining mail volumes and increasing competition from private sector operators rendered core postal services financially unsustainable in many countries. Therefore the profits generated by postal financial services are vital to balance the accounts or mitigate the deficits at the level of the postal enterprise. Ring-fencing people money from the general expenses of the Post Office is essential for preventing abuses. Equally important, governments should fund the cost of Universal Service Obligations (USO).

Granting postal financial services legal and financial autonomy is grounded in the recognition that these services are by essence different from core postal services and consequently should be managed distinctly. This autonomy can take various forms, from the mere ring-fencing of financial services into separate entities, run and operated independently from the postal business, to the full privatisation. In any case, it should be enshrined in the legislation in order to help redefine the business relationship with the Post Office. In various cases legal and financial autonomy has accompanied increasing operational freedom, namely the ability to introduce new products and set prices. Overall, the legal and financial autonomy is crucial for postal savings banks.

3.2. High-level of Corporate Governance standards

In recent years, corporate governance emerged on the global agenda as a key ingredient for pursuing proper and effective business practices. At the heart of the debate on good corporate governance lie the conflicts, or potential conflicts of interests, between stakeholders. In fact, when corporate governance is effective, it helps safeguard all stakeholders' interests vis-à-vis the management bodies⁷.

The issues confronting postal savings banks are grounded in the debate around state ownership in banks, and the risk of political interference in the banking activities.

Corporate governance for postal savings banks is of extreme importance, particularly because of the need to protect small depositors' funds. Because of their large client base, the possible risk that could result from inadequate governance is potentially high in postal savings banks. It is also socially very sensitive, due to the fact that a majority of clients comes from the most vulnerable and low income segments of the population.

It is therefore crucial to put in place efficient and transparent mechanisms which will ensure full independence of the management and Board of Directors of the postal savings institution from political influence and clear supervision rules and responsibilities:

⁷"The corporate governance system can be defined as the interactions among shareholders, managers, boards of directors, and outside auditors and analysts, together with the laws, regulations and institutions that govern their actions" Nisreen Darish, Elijah Brewer and Douglas Evanoff, Corporate governance: implications for financial firms, Chicago Fed Letter, Nber 197b, December 2003.

- ⇒ an independent management and Board of Directors. The risk of mismanagement in the resources are potential high with state ownership and the only viable option is to build check and balance mechanisms. By experience, the management and the Board of state-owned institutions submitted to periodical assessment of their performance have demonstrated greater accountability. It is also recognised that transparency and a structured policy of nomination of Board members enhanced their resilience to the political interference. Board members should be appointed for a fixed term and held accountable for their actions. Subsequently, the Senior Management should also be selected through a structured approach and is accountable to the Board.
- ⇒ the challenge of having an independent Board of Directors further supports the idea to shift the supervision from a Ministerial department to an independent body, very often the central bank. However, the transition phase or an intermediate scenario has been to bring the postal savings bank under the supervision of the Ministry of Finance instead of the Ministry in charge of Post or both Ministries. But, there are numerous cases where this scenario has proven loose, hence urging an independent supervision. The supervision by the central bank implicitly means a professional management of postal savings banks and compliance with applicable banking standards and regulations.

4. Introducing a Commercial Culture

It is obvious that the knowledge required for running financial services differs fundamentally from the skills necessary for the management of core postal services. Postal savings services need staff with banking and financial skills. In addition front-office's staff need to change their culture to become an essential part of the sale force. Required capacity building efforts should be complemented by the recruitment of professional and experienced managers to accompany the commercialization process.

Investments in infrastructure, including ICT are also needed to improve the overall efficiency (i.e. automation of the processes, accurate and detailed management of information), security (online - real time processing of transactions) and the distribution of products and services.

In an increasingly competitive market environment, the future of postal savings banks heavily rely on their ability to introduce a sale culture, deploy banking technologies and innovations and implement multi-channel distribution.

5. Overarching principles for a successful reform process

Based on the key building blocks described above, WSBI has articulated its vision about the institutional reform of postal financial services along the following overarching principles:

- ⇒ The institutional reform of postal financial services should not be carried out in isolation but in the framework of a broad postal sector reform agenda. Adequate policies, enabling legislative and regulatory frameworks, restructuring of core postal services should be undertaken simultaneously;
- ⇒ Legal and financial autonomy should support the development of postal financial services;
- ⇒ In countries where the “savings unit” and the “payments unit” function separately, they should be brought under a single operational unit, preferably the postal savings bank, since savings and payment services are at the core of retail banking;

- ⇒ The Government should refund where customer deposits become illiquid because the money has been misused;
- ⇒ Enhancing the corporate governance system is far more relevant than the debate about the ownership, as there is unambiguous evidence that corporate governance is one of the key elements in the performance of a financial institution;
- ⇒ Postal (Savings) banks should fall under the country's banking supervisory authorities. The independence of the banking supervisor provides a better guarantee for ensuring that corporate governance is enhanced;
- ⇒ The restrictions that postal savings banks faced to access the financial infrastructure (e.g. national and international payment systems) are not always justified. The access conditions should be the same for all financial institutions in order to create a "level playing field" in the financial sector.

6. Policy and Operational Recommendations

Some government's measures could be quite supportive to postal savings institutions in their endeavour to fulfil their mandate and below are a few examples:

- ⇒ The Government must ensure that postal financial services are offered at fair price/ cost and stop the practice (in some countries) to apply high prices in order to generate enough revenue to cover the losses from core postal services;
- ⇒ The Government must set the example and replace all its own cash movements (in and out) by account based transactions (i.e. the payment of social benefits - the payment of wages to its employees should be processed via an account at the postal savings bank rather than in cash). Government payments could indeed be a powerful tool for spurring access to finance in low income groups⁸. *The partnership between Postbank and the Social Security Agency in South Africa is a typical example and has led since January 2009 to the opening of more than 700,000 transactional accounts (Pension Flexi).*
- ⇒ The Government should promote or facilitate the cooperation between microfinance institutions (MFIs) and the postal savings bank. Both have complementary strengths: MFIs have experience and know-how to provide small loans to the poor, whereas postal savings banks are specialised in collecting small savings and handling low value payments. In addition, postal networks provide the national coverage that MFI's are missing. Rather than seeing each other as competitors, MFIs and dynamic postal savings banks could cooperate in leveraging their respective strengths to foster access to financial services.

Conclusion

One could suspect that postal financial services are redundant in mature financial sectors. The reality is the opposite with advanced economies (e.g. Belgium, France, Germany, Japan, Netherlands, Switzerland) maintaining strong and dynamic postal savings banks to complement well-established savings and mutual banks, and commercial banks. The United Kingdom from where the post office

⁸ M. Pickens, D. Porteous, S. Rotman, CGAP Focus Note, Banking the Poor via G2P Payments, Dec 2009, pp. 24.

savings bank's model originated before shrinking over time is currently assessing plans to establish a postal bank with a broad mandate in order to address the financial inclusion gap and boost community development.

Although the performance of postal banks in developing and emerging economies varies from modest to impressive, the potential of expanding postal financial services is undoubtedly immense. Brazil and China, which have quite young experiences, have achieved spectacular results. But, why have some experiences not been successful and others even failed? Does the business model matter in the performance of postal financial services? These questions could provide relevant insights for the future.

There is no hard evidence that a particular model has been a cause of success or failure. In the particular case of postal (savings) banks, public confidence is firmly entrenched in the stable economic environment combined to Government's legitimacy and wise management.

Nowadays, with increasing competition in the retail banking sector, commercialization has become a decisive factor in the development of postal financial services. Alongside hardly needed investments in Information and Communication Technologies (ICT) to improve the overall management and outreach, innovation is crucial for keeping existing customers and attracting new ones.

With the growing awareness of the need to facilitate the provision of financial access for all, the mandate of postal savings banks is more than ever relevant. Their ultimate challenge is to align to customers' expectations through the provision of quality and competitive products and services, in a financially sustainable and responsible way.



About WSBI – The Global Voice of Savings and Retail Banking

WSBI (World Savings Banks Institute) is one of the largest international banking associations and the only global representative of savings and retail banking. Founded in 1924, it represents savings and retail banks and associations thereof in 90 countries of the world (Asia-Pacific, the Americas, Africa and Europe – via ESG, the European Savings Banks Group). WSBI works closely with international financial institutions and donor agencies and facilitates the provision of access to financial sectors worldwide – be it in developing or developed regions. At the start of 2009, assets of member banks amounted to almost € 9,000 billion, non-bank loans to € 4,300 billion and non-bank deposits to 4,600 billion. Together the member banks conducted operations through 160,000 outlets.

WSBI members are typically savings and *retail* banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their *region*. WSBI member banks have reinvested *responsibly* in their region for many decades and are a distinct benchmark for corporate social responsibility activities throughout the world.



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