



The biggest distribution network for financial services on earth

How to make best use of the Postal Branch Network to promote
Access to finance?

A WSBI ROADMAP FOR POSTAL REFORM



WSBI - THE GLOBAL VOICE OF SAVINGS AND RETAIL BANKING



WORLD SAVINGS BANKS INSTITUTE

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Most Governments and Postal Organizations implemented the Universal Service Obligation of the Universal Postal Union via the set-up of a range of post offices all over their country. As a result, the number of “bricks & mortar” branches from Postal organizations represent more than 600 000 points of sale (more than twice the number of branches from commercial banks). If one takes into account, besides the mere numbers, the fact that a lot of these branches are located in rural and/or remote areas of the countries it becomes obvious that such a distribution tool represents huge opportunities i.e. as part of a policy to improve Access to Finance (A2F).

However, recent postal structural reform projects in several countries indicate that it is not an easy job to make better use of this asset.¹

Based on a number of recent studies and on the WSBI experience, we will summarize a number of “ingredients” that are needed to build a Roadmap for Postal Structural Reforms. This Roadmap is not a “one size fits all” solution, but rather a checklist of critical items that need to be considered if a country wants to implement a successful reform project.

In most countries the Postal Organization is built around at least three pillars:

- the Post - handles the core service of collecting and distributing mail
- the Postal Branch Network – where the face-to-face contact happens with the customers for all postal products and services
- the Postal (Savings) Bank - offers and/or manages the financial services² .

These 3 pillars are closely linked and dependant on each other.



Each Postal Reform Plan must be comprehensive and cover all Postal components (mail, network and financial services).

However, the business and required skills in each of these pillars is very different. Mail handling requires logistical skills, while in the network the required key competence is about sales, marketing and customer care. For the financial services it is obvious that knowledge about banking and risk management is indispensable. Therefore, each of these pillars should be structured as autonomous business units. To facilitate cooperation and even integration with other industrial or financial partners, each business unit should have its own legal structure. On the other hand, some glue is necessary to keep all pieces together and to avoid a gradual “divorce” inside the Postal organization.



A possible architecture could be to have a kind of holding structure where the overall group’s strategy and policy is determined and coordinated at the level of a “parent” company with a financial participation by the parent in each of the (operational) business units.

In order to judge in a correct and transparent way the added value of each business unit in the overall group's result and to monitor the performance of each unit separately, the units will have to negotiate cooperation agreements (including measurable service level agreements) with each other. These agreements will determine the exact responsibilities of each unit and under which conditions one unit can use the services of the other units. To make sure all this is happening in a spirit of creating win-win scenarios, a clear insight in the cost structure and cost drivers is needed.



A detailed and analytical cost accounting system is needed. The traditional public finance bookkeeping is not adapted to these new requirements.

Given the fact that in most countries the revenue before subsidies generated by the mail activity is lower than the revenue generated by i.e. the postal financial services and given the fact that in most countries overall revenue does not cover all costs, there is no operational reason why the overall Postal Group should be managed exclusively by traditional postmen.



The composition of the management team should be in line with the economic importance of each of the units.

Given the deficits that most Postal organizations are facing, WSBI feels that an abrupt and total privatization is not the most smart solution, at least not in the short term. To have a successful privatization and to make sure that crown jewels are not sold at too low prices, a long term view and approach is indicated³. A first step in the process is to strengthen the market position and market share of all postal business units. To achieve this goal, trust and confidence from the customers is needed.



Working on better Corporate Governance structures (creation of an independent Board of Directors in each of the units; recruitment of professional and experienced managers; implementation of solid internal audit and control procedures; implementation of up-to-date management information systems) is far more important than the debate about the ownership structure.



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Providing (postal) financial services via the Postal Branch Network can happen under 2 different scenarios: either the products and services are built and managed “in house” by a Postal Savings Bank; or the products and services are “only” sold under an agency agreement with an external provider (= one or more banks and/or insurance companies are selling their products, either under their own name or under a postal “brand”, via the Postal Branch Network). The consequences of each scenario can be (dramatically) different.

A careful analysis, based on facts and figures, of all the pros and cons of each scenario is needed, before making a political decision on how (and why⁴) to provide postal financial services.



If, based on the above mentioned analysis, the (political) decision has been taken to go for the “in house” scenario, again the most efficient and transparent approach should be taken in order to generate economies of scale and to come to a customer approach instead of a product approach.

All financial products and services should be housed under one roof. The current “savings only” unit and the payments unit should be merged into one single fully fledged banking entity.



There should be a “level playing field” between all financial institutions and the Postal (Savings) Bank should have the same access rights to the national and international payments and clearing & settlements schemes.

The Postal (Savings) Bank must have a full banking license and must fall under the country’s Banking Regulation and Supervision Authorities (no longer only controlled by the Ministry in charge of Post and Telecom);

The banking entity needs to comply with the Basel II capital adequacy rules and other rules on know your customer – anti-money laundering – Financial Action Task Force...

The Government will need to re-finance the Postal Savings Bank in those countries where customer deposits became illiquid because the Government used them to finance public deficits.





Huge efforts on capacity building will be required to prepare the organization (= each of the units) for all these new challenges.

Comprehensive training programs and a modern human resources policy will be required (i.e. recruitment and promotion of staff based on skills - performance - customer orientation);

Important investments in a state-of-the-art ICT infrastructure will be needed, at central level and in each of the postal branches. This will not only help to improve efficiency (i.e. by more & better automation of the processes, by providing more accurate and detailed MIS) and security (to have an online - real time processing of all financial transactions) , but will also allow to offer throughout the branch network other e-services and close the digital divide gap⁵.



Since in most countries (as well the developing as the more developed ones) the issue of Access to Finance is still very high on the political agenda and since the private sector is not able or willing to be more pro-active in this field, government intervention is needed. One way of intervention is to use the Postal Organization. However this must be done in a transparent and efficient way.

The Government must make sure that Postal Financial Services are offered at the lowest possible price/cost and stop the practice (in some countries) to apply high prices in order to generate enough revenue to cover the losses from the (core) mail activity;

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 salaries of civil servants, teachers, military,... - should be processed via an account at the Postal (Savings) Bank, rather than in cash);

The Government should promote or facilitate the "channeling" of Remittances (= the payments from migrants in favor of their families left at home) via the Postal organization (given its dense branch network, they are best placed to "cover the last mile" in the Remittances value chain);

The Government should promote or facilitate⁷ the cooperation between the Micro Finance Institutions (MFIs) and the Postal Organization. Both have complementary strengths: MFIs have experience and know-how to provide credit products to the poor, whereas the Postal Savings Bank has the expertise to collect small savings and handle low value payments and can provide the national coverage (via their branches) the MFI's are missing. By working together they can provide a very strong leverage to provide access to financial services for the unbanked and poor people in the country. This is one of the starting points to boost local economic development.

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The Postal Branch Network is clearly a sleeping giant in the debate about improving Access to Finance. Given its size and outreach, it has the potential to go where other providers cannot (or do not want to) go.

To “exploit” this potential, fundamental structural reforms are needed, because most Postal organizations – for obvious historical reasons- are organised with a “mailman” mentality. These reforms are not only very complex (and often - from a political point of view - very delicate) but also expensive in terms of needed capital and investments. The above mentioned Roadmap has tried to summarize the main steps that are needed to achieve these goals.

However if we look at the amounts of money and energy that have been invested in creating “from zero” all kinds of new initiatives, totally outside the Postal environment and even by ignoring it, and the very limited results this has generated so far, the question is if it would not be wiser to invest in the strengthening of existing structures (i.e. providing financial services via the Postal Branch Network). Hopefully this Roadmap will be a useful tool in this debate.

¹ For more details on these reforms , see amongst others:

- a) *The Postal Sector in Developing and Transition countries - Contributions to a Reform agenda - Edited by Pierre Guislain, June 2005, Washington DC, the World Bank;*
- b) *The World Bank (www.worldbank.org/ict): The Role of Postal Networks in Expanding Access to Financial Services. This Discussion Paper provides a unique insight into the worldwide provision of postal financial services. It identifies the strengths, weaknesses, opportunities, and threats faced by the postal sector. It also documents regional and country-specific best practices;*
- c) *WSBI publications: Perspective nr 36 "Moving towards efficiency: A study of the postal savings banks of Kenya and Tanzania" and 43: "The Reform of Postal Savings Systems in the West African Monetary Union", as well as the reports of the Annual Postal Savings Banks Forum (9 meetings so far).*

² *Financial services can include (national and/or international) payments services - savings and investment products - credits and/or insurances.*

³ *Limits to Privatization - how to avoid too much of a good thing, Edited by Ernst Ulrich von Weizsacker - A Report to the Club of Rome – 2005.*

⁴ *The political, economic and social concern to improve the proportion of the total population that has (easy) access to financial services can be a main "driver".*

⁵ *Since these investments go beyond the « core » postal activity, government intervention and support for these investments could be justified.*

⁶ *We are not opposed to an internal « cross subsidization » inside the Postal Group, but this should happen in a transparent way : as mentioned above, each unit should fix (in full autonomy) its prices and fees, according to its own policy to increase market share. If - as a result of this (successful) policy – a benefit is generated inside one operational entity , i.e. the Postal Savings Bank , then this benefit can go to the parent (holding) company, who can use it to cover losses in another operational (child) unit , i.e. the Post unit.*

⁷ *As mentioned in point 8, an important feature to achieve this goal, is to give the Postal (Savings) Bank full access to all national and international interbank payments and clearing & settlement systems.*

ABOUT WSBI



WSBI (World Savings Banks Institute) is the only global representative of savings and retail banks. Founded in 1924, it represents savings and retail banks and associations thereof in 89 countries of the world (Asia-Pacific, the Americas, Africa and Europe – via the European Savings Banks Group). At the start of 2005, assets of member banks amounted to more than €7,506 billion.

As the international voice of savings and retail banking, WSBI works closely with international financial institutions and donor agencies. It thereby represents savings and retail banks' interests at an international level while also facilitating the provision of access to financial sectors worldwide, e.g., through training, consultancy services, etc., be it in developing or developed regions.

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 one distinct benchmark for corporate social responsibility activities throughout the world.



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