

Global Panorama on Postal Financial Inclusion: Business Models and Key Issues



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Foreword



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Universal Postal Union

As UN Special Advocate, I am especially pleased that the Universal Postal Union is so actively exploring how postal systems can contribute to financial and social inclusion. Post offices have been an integral part of the infrastructure in many countries, contributing to the prosperity of communities through reliable communications. Inclusive financial systems are also an important part of a given country's infrastructure. They enable and accelerate economic growth and social development by helping people and businesses generate income, create jobs and protect themselves from unforeseen risks—and achieve their full potential.

Why Financial Inclusion Matters

The challenge is that today 2.5 billion adults—more than a third of the world's population—are not part of the formal financial sector. This is most acute among low-income populations and in emerging and developing economies; globally, about 75% of the world's poor are excluded¹. And about 200 million small and medium-sized enterprises (SMEs) in emerging markets lack adequate financing. As a result, people juggle costly and inefficient informal financial mechanisms in order to make sure they have cash when they need it—whether it be to buy equipment to expand a bakery or machine shop, to pay the children's doctor's fees and school tuition, or to provide daily necessities such as food. Or, they just do without. For business owners, this means cutting back on growth and productivity potential.

Financial services can make a big difference. They reduce and even remove the many fees and hidden costs of using informal financial products, including by

reducing the time spent juggling cash, informal loans and other products. For a poor family, even several percent of its total income can be the difference between more schooling for the children, more nutritious food, or basic health care. And for business owners and farmers, lines of credit, long-term finance at affordable rates and reliable payment methods can quickly contribute to higher profit margins and to capital investments in capital equipment, inventory and other inputs to grow the business. This is especially the case when financial products are designed to help clients achieve specific needs. For example, savings, insurance and loans with the right features can each help boost agricultural productivity and rural incomes. Research among farmers in Malawi has shown how improved savings options, including commitment savings accounts in which clients restrict access to their own funds until a future date of their choosing and often for a specific use, led to much greater savings and subsequently greater investments in farm inputs like seeds and fertilizer and higher harvest proceeds². In India, crop insurance is helping farmers shift to riskier but more profitable crops, and to invest more in them. And pilot projects in Africa suggest that having crop insurance increases farmer's access to formal loans as it reduces the risks. It also can reduce the cost of finance.

It is unlikely that a single type of institution can provide all the financial products that poor people and small enterprises need. Good products require understanding of local needs, context and markets. Different products also present different risks and delivery challenges. Addressing these also requires specific knowledge, and often partnerships among different institutions. So, because we want diverse financial products, we will then most likely have diverse providers of financial products for individuals and SMEs.

The Ecosystem to Realize Financial Inclusion

Global discourse has evolved in recent years from "microcredit" to "microfinance," and now to "financial inclusion" in recognition of this situation. With this evolution, we are seeing more attention to the broader enabling environment that fosters financial inclusion, and to the resulting impact on lives, welfare and development.

One of the most important roles for government is to create the connected ecosystem that encourages a vibrant financial services market, with diverse and responsible providers. This involves infrastructure, regulation and supervision, as well as efficiency, competition and consumer protection. It also involves promoting continued innovation to reach excluded households and enterprises with financial products that are needed, useful and affordable. Communications technology is at

¹ Global Findex Database 2012, The World Bank Group

² Kendall, Jake, *Giving Farmers in Malawi a Better Way to Saving Their Harvest Proceeds*, Bill & Melinda Gates Foundation publication, November 2010.

the forefront of so much innovation. Mobile phones are transforming how we do business, interact with social networks, share information and solve urgent problems. They are also changing how we pay for things and how we bank. In particular, mobile phones are drastically lowering costs and increasing access, as they make it possible to deliver sustainable financial services in the places where poor people live and work. Leveraging these and other innovations, however, requires partnership and coordination across many sectors—from communications ministries to central banks, mobile phone companies to social welfare agencies, commercial banks to retail stores. The leadership of communications ministries and their active coordination across government and with the financial sector is thus so welcome and so very important. And we are seeing great examples from diverse countries including Brazil, Kenya, India, the Philippines and Tanzania, which are among a growing number of countries committed to putting financial inclusion to the service of the poor.

The Role of Postal Networks in Financial Inclusion

Postal networks have much to offer for financial inclusion. Around the world, there are exciting examples where the post has built on its presence to provide financial services. Post offices frequently offer remittances, money transfers and bill payments. Some provide savings accounts or even full banking services. And at least one postal network offers a mobile wallet. Posts can also figure in government plans to switch salary, welfare and other payments from cash to electronic delivery, bringing efficiency, cost savings and transparency. In these scenarios, there are good examples where posts are using their nation-wide infrastructure to maximum advantage, for example through business models that rely on low-fees and high-volumes. Posts can also offer access and affordability, including because the criteria to open and maintain a post account are typically less than for a normal bank account. And in many places, post offices are already at the center of community life.

All these factors can enable and encourage poor people to use formal financial services, and can make a huge impact on lives and livelihoods. As a result, an estimated 1 billion people in more than 50 countries are banked through postal systems, according to the Universal Postal Union.

Where post offices are strong this is very positive. It is incumbent on postal network executives, policy makers, financial service providers and donors, however, to be realistic about the role and business approach of a particular post office to provide financial services. For example, client trust is crucial in financial services. In the case of the post, trust is influenced by the post's core functions, including mail and package delivery. If this is lacking, it will be hard for clients to trust the post with their money. Moreover, when it comes to financial institutions and products, we have unfortunately seen

examples of what can happen without proper management and supervision. Or when credit is promoted too heavily or at exorbitant rates. So, in all aspects, a postal bank must be responsible, sustainable and independent. This also extends to how deposits are used and reinvested. Examples, including those in this Panorama, of postal networks that create legally independent and regulated financial service entities are thus very welcome. And they are very important to inform best practices and sustainable business models.

This scenario of a postal bank is not going to be right for all posts in all countries, however. In some instances, serving as a retail partner for financial service institutions and mobile phone companies may make more sense. With the rise of digital communications and lost revenue from mail, posts all over the world are finding it challenging to maintain extensive infrastructure and staff. Many posts are developing additional products and service streams. Partnering with financial service institutions provides potential revenue through agent banking or hall rental fees, while recognizing the comparative advantage of the post. It avoids some big challenges like regulation, management capacity, and separating operations, and allows the post to concentrate on its strengths, while partners bring financial expertise and responsibility. It can also promote competition in the financial sector. And competition, we know, drives innovation and lowers prices, which is good for clients, businesses and the market overall. It is, however, up to the postal networks to become the partners of choice for financial service and mobile money operators. This could be transformative in many countries.

Financial Services for Social Outcomes

Financial inclusion is not only about providing financial services, but equally about the resulting impact on lives, welfare and development. One of the most exciting conversations I have when I visit clients, families, store owners, policy makers and national leaders is what they have been able to achieve with access to a bank account, loan or insurance product, and how financial services are being effectively twinned with needs-related social and development services. Today, postal networks have the potential to work even better for the poor by doing so. And there are exciting examples to follow. In Botswana, the Kitsong communication centers provide access to government forms and agricultural information. Other countries use posts to send school equipment. Brazil has even used them to raise awareness on HIV/AIDS.

How can we build on this? Perhaps this will mean partnering with pharmacies to deliver medicines. Working with social welfare and health ministries to deliver conditional cash transfers. Or with agricultural companies to send a farmer's crop directly to the buyer. The payment could be deposited directly into a savings account. The next season, this account could be automatically debited and the post delivers new seeds

and fertilizer. The opportunities are endless and I hope that posts will work with social sector ministries, private company innovators and others to develop them. The Universal Postal Union can play a big facilitation role, for example by collaborating with other UN agencies and their government counterparts in specific countries to identify if there is an appropriate partnership role for the postal network to deliver financial services that advance specific development goals. There is really no limit to what can be achieved.

Sharing Knowledge

There is such exciting progress and even more potential to make financial inclusion a reality. None of this will happen overnight, or without concerted effort, leadership and support. For these reasons, I encourage the Universal Postal Union and other partners to give their attention especially to countries where there are commitments to financial inclusion or coordination processes already in place. This includes those countries that committed to create national strategies and coordination platforms as part of the G20 Financial Inclusion Peer Learning Program, those where financial regulators have

set specific targets and immediate actions to advance financial inclusion as part of the Maya Declaration, and those countries that pledged to move government payments to electronic means as part of the new Better than Cash Alliance, among others.

In all these efforts, it is equally valuable to consider what has worked and also what has not worked, how successes can be taken to scale sustainably, and how experiences can be adapted to different local contexts. To this end, this Panorama and the related work of the Universal Postal Union is so valuable to help advance the financial inclusion agenda. I extend my congratulations to the Universal Postal Union for this very good effort. I hope this publication will serve as the basis for many conversations on business models, partnership approaches, diverse financial products, and appropriate regulation for inclusive financial services provided by post offices—and other institutions. And, I hope that the Panorama will spark even more and continued efforts to share lessons learned and best practices to bring financial services to anyone who needs them and for the benefit of many.