

**UPU-AFI WORKSHOP
ON FINANCIAL INCLUSION AND POSTAL
BANKING**

Financial inclusion in Azerbaijan

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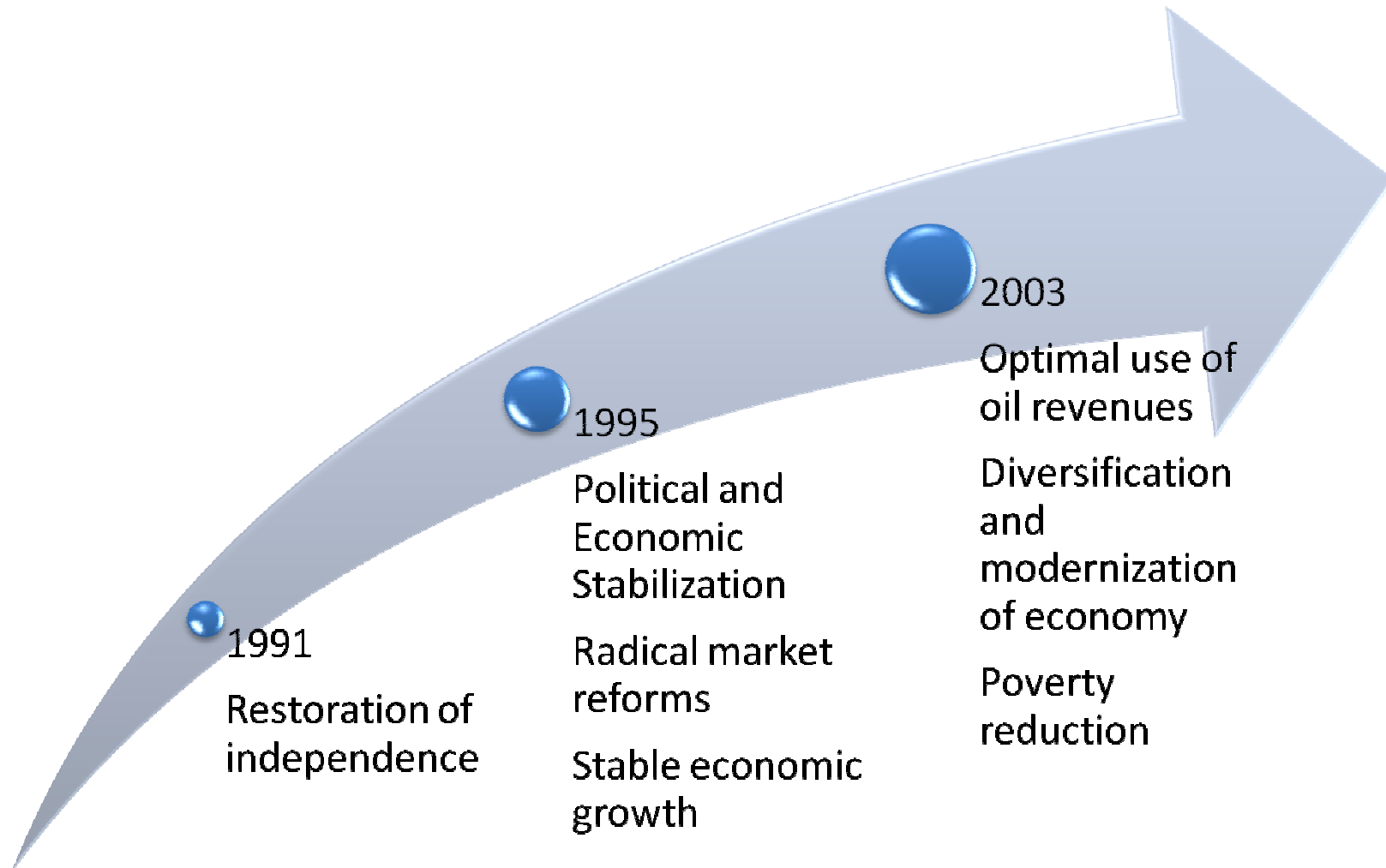
Bern, Switzerland

Financial inclusion in Azerbaijan

Agenda:

- Overview of Azerbaijan financial sector
- Financial Inclusion in Azerbaijan
- Postal Financial Services project
- Regulation of Postal Financial Services

Azerbaijan: Development Milestones

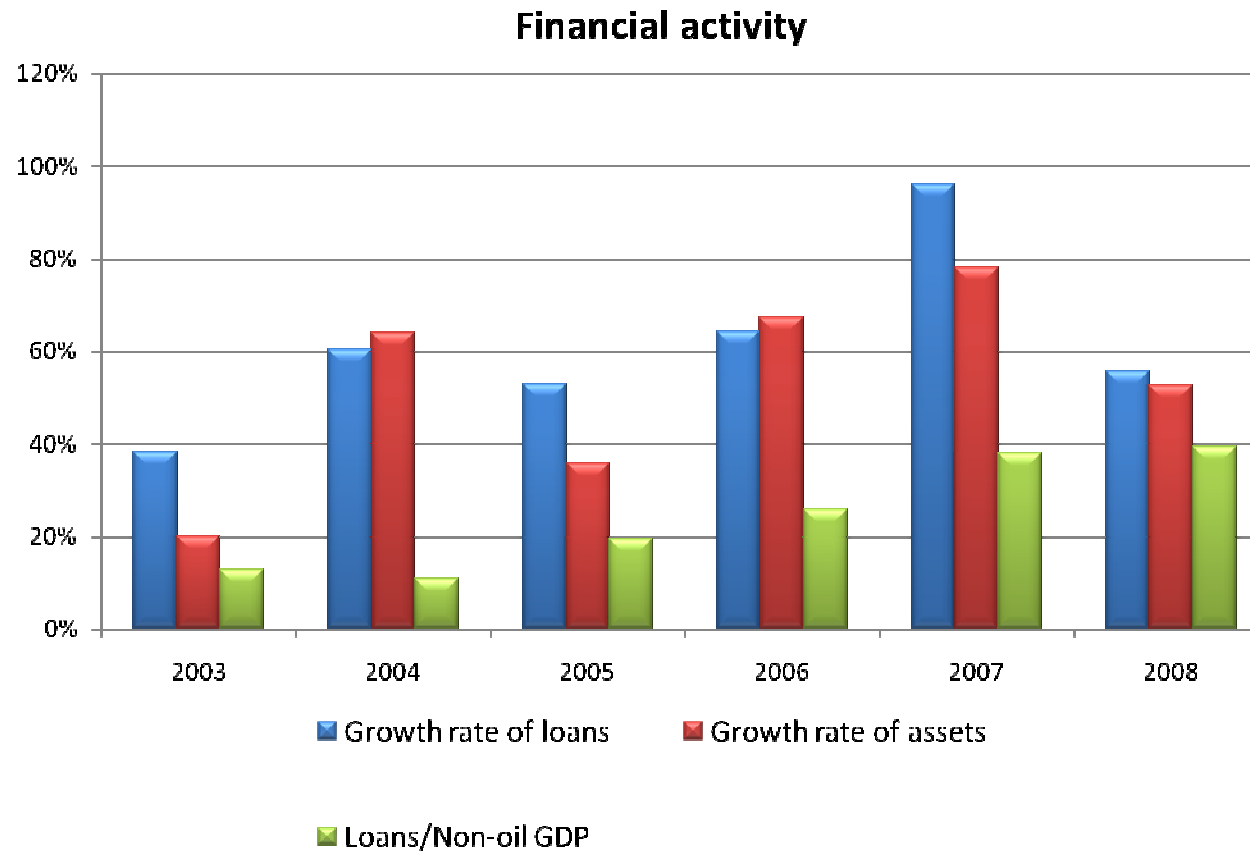


Overview of Azerbaijan financial sector

- 46 banks, 21 with foreign investment
- Internationally harmonized banking and infrastructure legislation
- Developed banking infrastructure (Payment systems, card processing centers, Deposit Insurance scheme credit buro, e-banking and etc.)
- Institutional development (corporate governance, IFRS, advanced risk management)
- Competitive market environment
- Efficient banking regulation and supervision

Major banking indicators: 2003-2008

Major banking system financial indicators has rapidly increased during 2004-08 years



Financial inclusion in Azerbaijan

- Focus on achieving full range of financial services
- An efficient tool to alleviate poverty:
 - ❖ Broaden and deepen access to development finance
 - ❖ SMEs development
 - ❖ Stimulate economic activity in remote areas
- Diversification of economy and development of non-oil sector
- Development of cashless payments
- ***Financial inclusion yields better and sustainable economic development***

Postal Financial Services

Why postal financial services needed?

- Cater to the requirements of remote areas, as well as those of poor people
- Expanding financial services in rather underserved market segments
- Facilitates Government's financial sector reform program and stimulate cashless payment behaviour (e.g. APUS)
- Helps to achieve financial inclusion objectives

Postal Financial Services

Opportunity assessment:

- Services to the poor or in sparsely populated rural areas are not well covered by banks:
 - ❖ high initial investment costs
 - ❖ low business volumes and the consequent high transaction costs
 - ❖ Preference to alternative delivery channels (E.g. Online)
- Current customer base creates fast start for new PFS services
- Large volumes of low value payments give economics of scale to develop new services via Azeri post.
- Positive view of post office services by customers

Postal Financial Services

- “The mission of Azerpost is to provide a wide range of modern postal and postal financial services throughout the country both to individuals/households and business entities. The Company’s aim is to provide an efficient, low cost service to its customers in order to maintain and improve communications and postal financial services within the country, and provide greater access to these facilities in the most convenient way for all customers with special focus on the rural areas.”

Postal Financial Services project

Project Objective:

- To transfer Azeri Post to an entirely new organisation, which better suited to the commercial demands of both postal and financial services
- To establish a systems to expand the core postal business, as well as to manage those financial services

Postal Financial Services project

Project objectives:

- New procedures backed by continuing training and oversight to implement and maintain processes
- Capacity building (To address human resource shortcomings)

2008 Amendment to Postal Law

- Opening and managing postal accounts;
- Implementation of financial transactions;
- Opening of correspondent accounts in the financial institutions, as well as in the Central Bank of Azerbaijan Republic;
- Receipt of postal deposits;
- Issue of payment resources, as well as debits and credit cards, postal checks. Limit of the credit card may not be more than the amount of postal deposit of the card holder;
- Purchase and sale of foreign currency as the payment agency and not making currency risk to the national operator;

Regulation of Postal Financial Services

- Two quite different regulatory regimes:
 - ❖ Postal sector based on international (UPU) regulations;
 - ❖ Financial services monitored by the Central Bank of Azerbaijan.
- Both regulatory regimes will bring their own legal and technical requirements for compliance and monitoring

Regulation of Postal Financial Services

Licensing requirements:

- A new market oriented organisation structure, and qualified management
- Sound commercial strategy and business plan
- Management Information System - to manage the new financial services products
- New procedures backed by continuing training and oversight
- Dedicated units for PFS (Including Supervisory and Management Board), their charters

Regulation of Postal Financial Services

- Prudential regulation and control:
 - ✓ Economic regulative requirements on postal-financial services (minimum capital requirements, daily liquidity ratios and open FX position);
- Enforcement measures:
 - ✓ Enforcement instructions;
 - ✓ Limitation on certain financial services;
 - ✓ Additional prudential requirements, etc.;
 - ✓ Withdrawal of license (and permissions).
- Central Bank has developed separate **Licensing and prudential regulation** for Azeri Post

Thank you !

To UPU and AFI to host this event and
bring together best international
practices on postal financial services, as
well as country participants for sharing
their valuable experience