



## **POSTAL OPERATIONS COUNCIL**

### **Committee 3 (Postal Financial Services)**

#### **Forum on postal financial services**

Berne, 23 April 2010 (9.30 to 12.30 and 15.00 to 18.00), Montgomery Blair Hall

#### **Summary and main conclusions**

The Forum gave an overview of the progress being made in the development of postal financial services (markets and operations) in five countries: Azerbaijan, Brazil, Kazakhstan, Korea (Rep) and South Africa. All of the presentations (Annex 1) were well received by the delegates and indicated not only considerable progress in development and outreach, but also significantly different models and roadmaps.

A factor common to all five presentations was that, in each country, the Post provided financial services via a network that was considerably denser and more accessible for the rural and poor populations than any single bank or the financial sector considered as a whole. In some scattered rural and poor areas, the ratio of post offices to savings bank branches was more than 25 to 1.

Despite these differences in development, often the result of country-specific factors, the next stage targeted appeared to be the development of a full-fledged, licensed and competitive "postbank" able to leverage its distribution power to reach out to the poorest and unbanked via an ever-present post office retail network. Envisaged or existing postal ownership ranged from 100% (fully owned) to 0% (long-term concession agreement) and in between (joint venture).

Nearly all of the case studies gave details of significant growth in transaction volumes, number of accounts and the range of products, thus emphasizing the postal network's potential role as a low-threshold distribution channel or infrastructural component helping to enhance and broaden access to basic financial services. Each study showed progress being made in efforts to offer financial services to millions more people with little or no service.

The case studies offered some valuable generic lessons that may apply to many more postal operators.

#### **Institutional framework and capacity building**

The case studies showed that success in the development of financial services was closely correlated with the degree of the Post's institutional development and its internal capacities. Indications of this were clearly presented in the studies of Azerbaijan, Brazil and Kazakhstan. One enabling factor appeared to be the status of the postal financial service operators as customer-oriented entities with commercial freedom and professional management. Coordination with all regulatory authorities (postal and financial regulators, central bank, etc.) needed to be ensured.

Moreover, several Posts showed that their financial condition and performance appeared in reports on annual accounts, in accordance with IFRS/IAS<sup>1</sup> audited by independent external auditing firms. In this context, the need for separating within Posts business management and the operational accounting

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<sup>1</sup>IFRS/IAS = International Financial Reporting Standards/ International Accounting Standards – the international set of standards for preparing and auditing the reports and accounts of legal entities that need to publish their accounts. These standards are set by the International Accounting Standards Board. The European Commission applies similar standards for legal persons within the European Union.

functions of the different services for letters/parcels and financial services had been dealt with, while synergy had been achieved through the joint use of the postal retail network and its infrastructure.

One critical enabling factor for financial services development appeared to be the development of a centralized function for cash/liquidity management and the efficient organization of cash logistics. The Brazilian case featured full outsourcing of cash logistics to a partner bank, while ECT Correios maintained real-time online tracking of the Post's liquidity position. The Azeri and Kazakh cases showed ways of building a central treasury and providing logistics in Posts. The South African case at this stage featured the SA Post Office working in cooperation with a commercial bank, providing cash logistics, treasury and liquidity management solutions as a service to its Postbank.

Other critical enabling factors extensively discussed in the presentations included:

- *Human capital building* through extensive training for all levels of postal management and staff, and other elements of talent development and human resources management;
- *All post offices "wired" or with effective broadband connectivity* (e.g. via mini-satellite dishes or initially by mobile phone); the connectivity network can be used for more applications such as public internet access, e-learning and e-government services;
- *All post offices adequately equipped with ICT-based technology* for processing payments, authorizing payment transactions, checking databases and providing information, all of which entails an advanced architectural model comprising a front office, mid-office and back office, suitable for processing large volumes of transactions at peak times, with integrity, consistency and a very high level of reliability and operational 'excellence' (to convey to the poor and financially illiterate the message "the system is temporarily out of order; you cannot get your money now").

The question-and-answer sessions generated lively discussion. Several of the recurring themes and issues are highlighted below.

#### *Central banks (financial sector authority)*

Various participants, including Nigeria, raised questions about the awareness or information/knowledge capacity of the central banks (or "financial sector authorities") regulating the Post's participation in the financial sector. The presentations highlighted different models, such as the one in Azerbaijan referred to as a 'non-bank financial institution' with a specific scope defined in the licensing agreement (including connection to payment systems); the Kazak model, with a banking licence making it possible to accept deposits to be reinvested in government debt titles, process payments and connection to payment systems and act as banking agent; the Brazilian model, with the Post operating as "correspondent/agent" for a large robust bank; and the South African model, with the Post, under the "Postbank" brand, as limited depository preparing these operations for its transformation into an incorporated legal entity with a second-tier banking license under the reserve bank's supervision.

Many participants expressed the need for more information and documentation in this area, indicating the lessons learned and the recommended sound practices to be presented to their central banks, as well as the need for greater dialogue between the UPU and central banks on the regulation and supervision of the postal networks providing financial services. It was noted that this could be undertaken with the support of the Alliance for Financial Inclusion and the World Bank, for example.

#### *Issuing and payment of remittances: first mile and last mile*

Nearly all presentations showed the Post's active role in the area of migrant worker remittances as both "first-mile" player and "last-mile" player. Two presentations clearly demonstrated how Posts in the last mile and with their vast rural network can connect to many remittance operators and thus provide the rural poor with greater convenience, proximity and security.

Many of the participants expressed interest in learning more about these solutions.

Several of the participants described their experience with money transfer operators (MTOs) that aggressively offered their services on the basis of long-term exclusivity through the public postal network,

regardless of whether the Post had made a public bid for such exclusivity (tendering process). Others approached found it difficult to assess the MTO and its compliance with anti-money laundering (AML) measures or its ability to handle customer complaints. Delegates of the postal operators of Niger, Nigeria, PAPU members, Senegal, Togo and Spain, among others, therefore requested information, guidance and assistance about MTOs and doing business with them. The various subjects concerned included:

- minimum requirements applicable to MTOs in dealings with Posts;
- contractual conditions and contract templates;
- calculation of internal transaction costs, tariffs and fees;
- advance deposit requirements and other financial conditions;
- risk assessment and control;
- design of technology solutions to handle flows of remittances from two or more MTOs;
- provision of transparent comparative information to payees of remittances;
- customer complaint procedures and objective information to help customers choose the most suitable product or service;
- legal advice and support for Posts wishing to discontinue exclusivity contracts.

Many participants stressed the need to give priority to postal financial services which were a better source of profit for designated operators.

The IFAD representative highlighted his organization's role in facilitating the provision of remittances in rural areas and its interest in a broader rural financing capacity. IFAD currently cooperated with the UPU on projects involving postal remittances in six West African countries. It mentioned a grant facility to which postal operators can apply for developing their remittance services in rural areas. IFAD emphasized its interest in supporting the issues raised, while the WSBI representative mentioned his organization's willingness to promote the concept of having the remittance services of multiple MTOs provided via the postal network and the provision of legal advice for operators wishing to discontinue exclusivity agreements. The World Bank highlighted its programmes helping developing countries to promote remittance transparency. Both the moderator and the World Bank referred to the "guiding principles for remittances" issued by the Bank for International Settlements and the World Bank. The active application of these principles by Posts was welcomed.

#### *Costing and internal transfer pricing*

The discussion on fair remuneration for use of the postal network in Brazil and the ongoing WSBI assistance given to the South African Postbank for "internal transfer pricing" prompted several of the participants, including China (People's Rep), Spain, and Senegal, to propose sharing costing and pricing information relating to use of the postal network for financial services. The need was also expressed to share documented experience, sound practices and models that could be considered for application.

#### *Customer literacy, transparency and intimacy*

As part of the World Bank's overall efforts to promote access to financial services, World Bank delegates stressed the need to promote financial literacy, transparency and intimacy. Several programmes in this area were ongoing and were aimed at measuring access, transparency, literacy and privacy, particularly in Eastern Europe and Central Asia; preparations for expansion to other regions was under way.

Post offices, as part of a public network providing financial services, could also, in this respect, combine the public interest with business development and leverage their strength in transparency, thus helping to promote financial development and educate the public in order to build competitive consumer power to counter the banks and other providers lacking the crystal-clear transparency that the poor and financially excluded need in order to use financial services wisely. It was also recommended to review and test the current tariff tables and fee structures, as well as how Posts or Postbanks and other financial service providers handle complaints.

### *Funding and financing*

The participants noted the different methods and conditions of financing the development of postal financial services. The Brazilian case was built primarily on a carefully prepared and tested model involving a private sector bank as partner initially providing large sums of capital for upgrading postal network technology and connectivity and extensive postal staff training. The Kazakh and South African cases appeared to be based mainly on self-financing and concurrent programmes to redesign business processes and modernize the postal operations (letters and parcels). Lastly, the Azeri case featured financing mainly through a World Bank loan agreed with the government of Azerbaijan.

Delegates from several postal operators representing different regions wished to learn more about eligibility and the prerequisites of securing financing from the World Bank and other similar institutions for the development of postal financial services. According to the World Bank representative and the Azeri Post project official, the project's inception in 2002 was the result of the dedication and commitment of the Azeri Minister of Communications at the time, the consensus reached with other key government officials and the vigorous support of the National Bank of Azerbaijan for including the Post in its programmes to develop payment systems. All this was supported by figures showing the Post as the only network infrastructure in rural areas, in sharp contrast to the banks, which were focused on developing small branch networks in the capital of Baku and several other cities. Implementation of the project, prepared between 2002 and 2005, had finally begun at the end of 2006 and was now soon to be completed. The World Bank delegate recalled the progress made by the Azeri Post in publishing annual reports on IFRS/IAS audited accounts. With such reports published three years or more in a row, the Post's access to other finance resources would improve considerably. The Forum organizers noted the participants' desire and the need to share more information on how to fund the development of financial services.

### *Roadmap*

Each of the cases presented featured a different course of development or "roadmap", with common aspects indicating that there was yet no navigational system for guiding the user. In fact, each map and each road needed to be designed for fairly durations ranging from five to more than 15 years. Several delegates representing postal operators wanted more information shared about the different experiences with roadmapping and more assistance provided on how to design feasible roadmaps and how to achieve so-called "quick wins" in the short term.