



Postal Financial Services in Africa



Strategies to Increase the Inclusion
of Low-Income Populations



Recommended
Strategic Principles
to increase
financial inclusion via postal networks in Africa

1. **Post offices need to be seen as an existing specific component of the financial access infrastructure** and as a distribution channel with substantial unutilized potential. Post offices are not bank branches and also not a group of random retail agents. Post offices carry a social and public responsibility to provide reliable, fair and transparent financial services, and where applicable a specific role in promoting financial literacy.

To function as a distribution channel of one or more financial institutions, at least three key issues require to be addressed:

- interoperable ICT supporting the operations in post offices and connected with financial institutions;
- sufficient control by the financial institutions on the operations, quality and cost of the offices, staff and systems at the post offices;
- promoting competitiveness for delivery of sustainable financial access.

Dependent on if and how these issues are resolved and on the institutional framework of the post offices , financial institutions need to be engaged in using the post offices for management of the delivery of financial services. This can vary from simple, one-product, agency agreements for a short-term, to long term ventures in which the financial institution is involved in managing and in investing in the network and its staff.

2. **Financial services via the post offices need to be managed and controlled by responsible institutions licensed by the financial regulator.** Financial services via the post offices are in principle not in the domain of a postal regulator.

The institutions can be:

- Banks, Micro Finance Institutions, Money Transfer Operators, Payment Service Processors and Insurers meeting a set of minimum requirements in responsible finance, transparency, literacy and consumer protection operating under an agreement with the postal operator to use one or more post offices as their agent, or alternatively under an agreement to rent space in one or more post offices for their representation with own staff and own ICT.
- A historic postal (savings) bank institution as a licensed deposit-taking institution and e.g. as a MFI Wholesale funder, in conjunction with a program to corporatize the entity within a reasonable term into a licensed retail bank and operating under a transparent agreement for the usage of the post offices;
- The state-owned postal operator licensed as a Non-Bank Financial Institution to operate e.g. money transfer services and bank agency services. To increase the financial inclusion, the postal operator will subsequently need to prepare for, select and enter into

partnerships or agency agreements with licensed financial institutions to distribute their products;

3. **Diversity of the financial services offered via the post offices is needed** through a broad range of affordable services (e.g. payments and transfers, savings and deposits, loan installments, bonds and insurance premiums). It should not remain limited to one or two products, and also not be based on long-term exclusivity to (historic) providers who face limitations in their capacity to expand to a broader range of services on a competitive basis or to a larger number of clients.
4. **Innovation in the delivery of financial services via the post offices** is needed through building partnerships between the post offices as a delivery channel, and competent financial institutions and mobile telecom operators for the application of new technologies to expand financial system access and usage. This needs to be seen beyond the usage of modern ICT for teller operations and delivery of financial services; it could include self-service terminals, mobile post offices and postal couriers equipped with mobile technology to deliver financial services fitting in a broader scenario of expanding e-commerce, e-government and e-learning. Standardized interconnectivity and interoperability with e.g. mobile and electronic channels for financial services is therefore a requirement.
5. **Empowerment for financial inclusion via the post offices needs to include the development of financial literacy with the un (der) banked.** In this context post offices need to be seen as a mass communication medium instrumental to enhance information and transparency about using financial services. Empowerment of the post offices as a channel for financial inclusion will frequently require transformation and change programs based on building financial management capabilities within the postal operator and post offices, and the involved financial institutions. Empowerment needs to be based on a “learning curve” for the postal organization and its environment. This also requires proportionality in strategies to increase financial inclusion via the postal networks, with steps that are balanced between the risks, capability and benefits, and taking into account the gaps and barriers in the existing postal sector regulation.

To unleash the potential of postal networks it is recommend following up the above principles with a minimum set of actions including:

6. **Full data reporting to the financial regulator on all financial services delivered via post offices**, and inclusion of these data in the financial sector statistics. The statistical reporting does not require an immediate change of existing legislation or regulation of the postal operator. In cases where the reporting does not exist it can be seen as one of the first steps in the preparation of new strategies to increase financial inclusion via the postal networks.
7. **Corporate transformation** of the existing postal financial services in corporatized entities that are part of the regulated financial sector. Roadmaps for the transformation need to be based on a consensus between the financial regulator and the involved Government agencies. Roadmaps depend on specific local circumstances but can be built

around a selected number of options and phases. Moreover, intensified cross-border cooperation or international alliances will need to be considered to ensure adequate economies of scale and sustainability.

As a part of the transformation, audited IFRS financial statements of the designated postal operator are needed. These financial statements need to include segmented accounting of the services provided within the reserved area for mail services and of the financial services entities.

8. **Transparent methodology of the financing of the net cost of the reserved area of the postal Universal Service Obligation.** It appears as essential that the financing methodology of the net cost of the postal USO is made transparent, avoiding the suggesting that internal cross subsidies exist between the postal services and the provision of financial services to the low-income groups.
In the case of net cost, or net losses of the postal service, these could be addressed through:
 - (a) differentiation of postal tariffs, with increases for those clients who are able to afford higher tariffs such as business and senders from abroad, and ;
 - (b) transformation of the postal business model through increased flexibilization of the traditionally high levels of fixed assets and fixed cost of the postal operation.

9. **Revised sector policy and regulation for ‘postal services’ with an emphasis on promoting growth and competitiveness of the sector;** in recognition of the fact that the postal sector has been liberalized globally, this calls for the need to redesign of a reserved area for a specific operator or design of other measures encouraging nationwide delivery, and taking experiences from other sectors of trade and industry, e.g. the telecom and airline industry. The sector policy also needs to take into account the new postal logistics business models and application of new ICT-based postal technologies, replacing large parts of the early 20th century model which was mainly based on manual labor.

10. **Human capital building is a prerequisite;** a critical success factor in implementing effective strategies to increase financial inclusion and improve competitive viability of the postal services requires to recognize that trustworthiness and competence to reach out to the un(der)banked hinges on investing in and incentivizing talented post office staff and management and ensuring an ethic and customer centric corporate culture .

