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The Role of Postal Networks in Expanding Access to Financial Services

Worldwide Landscape of Postal Financial Services

Asia Region

The World Bank Group
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Author's Note

This section discusses the landscape of postal networks in the Asian Region[1] and their current role of postal networks in providing access to financial services. The landscape is intended to serve as a basis to assess the potential role to expand access to financial services.

For some aspects and some countries, data was limited or not available to the desk research finished in 2004. This is particularly true for data on the role of the postal networks in cashless payment systems, the significance of the postal financial services compared to monetary aggregates, and details of the financial services rendered through the post offices.

Although there were several limitations in access to data for the countries, some other countries that were not included in the list of nine countries here have postal networks with an active role in financial services (e.g., Malaysia, Cambodia, Lao PDR, Bangladesh, New Caledonia)

While this Asia regional landscape can stand alone, it is an integral part of this large study of the potential of postal networks to coordinate with financial service providers in 5 regions (*Africa, Asia, Eastern Europe and Central Asia, Latin America and the Caribbean, and the Middle East and Northern Africa*) and 7 countries (*Egypt, Kazakhstan, Namibia, Romania, Sri Lanka, Uganda, and Vietnam*).

Glossary of Abbreviations and Acronyms

ATM	automated teller machine
CAGR	compound annual growth rate
EFT POS	electronic fund transfer at point of service
RMB	Chinese renminbi (yuan)
USD	United States dollar
UPU IFS	Universal Postal Union's International Financial System
VND	Vietnamese dong
WSBI	World Savings Banks Institute

[1] The Asia region defined here covers two World Bank regions, the South Asian region and the Asian Pacific region. It does not include Central Asia (the former Soviet Union countries) or the Middle East countries.

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Summary

Postal networks in the nine countries in the Asian region[2] profiled here have 289,067 post offices. In many of these Asian countries, post offices have provided payments and savings services for more than 130 years. At the end of 2002, 335 million Asians had postal savings accounts, for a total balance of USD 83 billion (about 20 percent of the adult population). In China and Vietnam, postal savings have only been recently established, but are growing quickly.

In addition to payment services, it provides domestic money transfers, including collecting bill payments. In some countries, e.g. Thailand, the role of postal networks in the payments system is significant. In general, however, transaction volumes for savings and payments together appear low, suggesting that many of these accounts may be dormant and may play only a marginal role in the payment system.

Postal networks appear not to have been included in on-going large-scale programs for cashless payments systems in Asia. Modern payments technology (ATMs, electronic fund transfer at point of sale, phone banking, e-banking) has been available for nearly two decades in Asia, but still has only slightly penetrated the market.

Because the postal networks are about twice as large as the bank branch networks, and geographically more evenly spread over the countries, there appears to be considerable potential for the postal network to provide access to financial services.

Postal financial services in nearly all of the countries reviewed in the Asian region are managed and operated by state-owned postal services, often under a post office savings bank agency contract with a ministry of finance. However, none of the situations is identical. In some countries, postal savings are managed by separate state banks, as in Indonesia and Sri Lanka, whereas the Philippines manage through a separate subsidiary.

Widespread consensus notes that postal networks could play a much stronger role in providing access to financial services, especially to unbanked poor and rural communities. The offerings of postal financial services need to be revamped from single, fragmented products to integrated product packages including payment cards, savings, deposits, insurance, and eventually credit.

It appears difficult to put what seems so obvious into practice. In several countries, repositioning the postal bank has been discussed for more than 10 years without conclusion. In other countries, steps have been taken to separate the postal bank and transform it into a company independent of the postal service. In most of these cases, the usage of the postal network has sharply decreased or has simply been terminated. The reluctance of the state to give up control of postal financial service (and access to their revenues and depositor funds) seems to be almost insuperable. Lack of control, poor quality, costs, and unreliable performance of the postal network inhibits the postal bank from using the postal network.

Revenues from postal mail operations alone cannot sustain rural postal networks in Asia. Mail volumes are extremely low; frequently there is no mail to be processed, and operational costs are high and fixed. In various cases across Asia, there are more financial transactions over the counter than sales of stamps.

Vigorous reform is required to develop intrinsically strong and competent institutions. The issue is not limited to repositioning postal financial services in the financial sector (instead of the public postal sector), the issue is also repositioning the postal network as the front-end of the financial sector and the modern information services (instead of the back office for mail processing, collection, and distribution). A vigorous approach would therefore have to include assessment of options, such as participation of and/or alliances with privately managed financial institutions, cross-border co-operation, private postal agents, and a process and approach not necessarily dependent on the pace and course of postal reform.

[2] The Asia region defined here covers two World Bank regions, the South Asian region and the Asian Pacific region, namely China, India, Indonesia, Nepal, Pakistan, the Philippines, Thailand, Sri Lanka, Vietnam. It does not include Central Asia (the former Soviet Union countries) or the Middle East countries.

1—Introduction

The postal networks in the Asian region comprise **289,067 post offices**, about 44 percent of the worldwide postal network. They are much larger compared to other networks in the region, including the estimated 150,000 bank branches and sub-branches.

Key Data on Postal Networks and Access to Financial Services

Population	2, 968 million
GDP	USD 2,096 billion
Territory (in square kilometer 000s)	16,877
Post offices	289,067
Staff	1,259,359
Mail items	25,506 million
Postal financial transactions volume	354 million
Postal financial transactions (value)	USD 24,237 billion
Postal giro and savings accounts	335 million
Postal financial assets	USD 83 billion

Sources: Research from UPU, WSBI, World Bank, ING

Per capita mail volumes on average are between 1 and 10 items per year, which implies that households regularly receive mail. The postal networks are dense, but in general cannot be economically sustained by revenues from the postal mail services, despite large volume (more than 25 billion items) and promising growth forecasts. However, revenues from postal mail services for the state-owned postal operator are likely to face pressure from increased global competition in international mail, express, parcels, and logistics, as well as substitution of e-mail, fax, and other new technologies. Postal operators in the Asian region, therefore, attach more and more importance to the development of financial services and aim to keep them with mail services to sustain the postal network.

In India and Thailand, governments have intervened with subsidies to sustain the postal services for decades, including cross-subsidies from telecommunications. While some Asian postal operators have broken even in recent years, Chinese and Indian authorities have declared their intent to terminate all subsidies, which could be a force to commercialize the postal service.

To what extent cross-subsidies occur between mail services and financial services is not clear from the accounts that are produced by the postal operators. Also because, of the lack of detailed accounts, it is not clear how much cross-lending practices occur. Postal savings in Asia tend to have a robust and secure image, and there are no known cases of liquidity or solvency problems. During the Asian financial crises in the 1990s, postal savings were safe havens for small savers.

Postal reform is at different stages in Asia. With Singapore and Malaysia and several other countries preparing to privatize their postal operators, one would expect at least half of the Asian countries to have privatized or fully commercialized postal operators.

The process of postal privatization will also challenge the future of the postal financial services and their institutional settings. Some postal operators have entered into partnerships with private financial institutions for one product or even in a specific geographic area. These initiatives still feature experimental and fragmented approaches (e.g., launching a new product or new technology) and focus on adding international remittances, insurance, or mutual funds, rather than being part of an overall comprehensive strategy to reposition the postal financial services. It seems that the lack of clear strategy and structure for the postal financial services makes the process of postal reform more complex.

The Role of Asian Postal Networks in Providing Access to Financial Services

Financial Services	Discussion
Payments	• Account-based services for cashless payments are not widely offered. Only Indonesia has a tradition in postal giro services, and recently Vietnam has started to introduce automated payroll services. In some cases, like China, payment functionality is added to savings accounts. Overall, postal networks in Asia generally have not so far provided cashless payments instruments. • Post offices do play an important role in providing cash-based money transfers or remittances domestically, although available data may not reveal the full extent of their role. Postal networks provide for money transfers for person-to-person needs, and in some cases for collection of bills with various degrees of success. Particularly, if new technology is applied, (in China or Vietnam for example), the postal network could have a leading role. • There does not appear to be any structural participation by postal financial institutions or consideration of their existing infrastructure in any of the programs to develop cashless, or more automated, payments systems. • There is a risk of the postal networks being marginalized in the payment system, and that the cashless payment system not being widely accessible. ***Access to modern cashless payment systems is not available, with few exceptions, and in most cases it would require large-scale investments to upgrade post office technology and security.***
International remittances	• Product range of remittances is being expanded and upgraded, in particular with UPU's International Financial System (IFS) and Eurogiro, but the actual role is still insignificant. The estimated market share is below 1 percent except where the postal networks have an agreement with Western Union (Indonesia, India, Thailand, China) or MoneyGram (Vietnam, the Philippines). • In view of global migration, large opportunities are not being taken advantage of. ***Access to international remittance services at post offices is limited; and it is not positioned in a "remittances for development" concept.***
Savings	• With 335 million accounts, penetration is good. In some countries, 10–30% of adults have accounts with the post offices. • Actual usage, based on deposit transactions, is low, averaging 1 transaction per account per year, which suggests high numbers of dormant accounts. Depositor confidence is highly dependent on state guarantees. Tax exemptions create unfair competition. • Market share value in some countries is significant (China, India), marginal in some countries (Sri Lanka), and small but growing in others (Vietnam). • Most often, a small range of products are increasingly linked to other services (an ATM card for example), but not yet to remittances, payments, or credit. In some cases, links to the private financial sector have been established. • Current savings operations and savings database could be the foundation for expanding toward offering fuller financial service packages. ***Access to deposits/savings is widespread with nearly 335 million clients; actual usage is presumed to be concentrated with less than 100 million***

	savers. Product development id needed to offer fuller financial service packages.
Insurance and pensions	• In some cases, a traditional state life insurance program exists (India, Pakistan), and is just being introduced in others (China, India) in partnership with the private sector. • In view of large-scale pension reform, opportunities here are not being taken. ***Access to insurance and pension products at post offices is non-existent, but there are some promising developments.***
Credit	***Credit is non-existent through post offices***, although China is considering it.
Economic significance for the postal network	• Revenues from postal financial services are key to sustaining postal networks and contribute 30–50% of the total revenues of the postal services. • A detailed revenue/cost break down on the relevance for the post office counter network is not available. ***Revenues from postal financial services are key to sustaining postal networks***.
Overall	***The role of the Asian postal networks in providing financial services centers around postal savings, and in several cases they are significant or leading providers in deposit taking, and in domestic person-to-person cash transfers. Application of modern technology is key to making the services more attractive.*** ***Institutional reform (related to a broad range of issues, including regulatory environment, governance, management, market and business development, management information systems, and technology) will need to be addressed to provide a sustainable role for postal networks in expanding access to a broader range of financial services on a competitive and sound basis.***

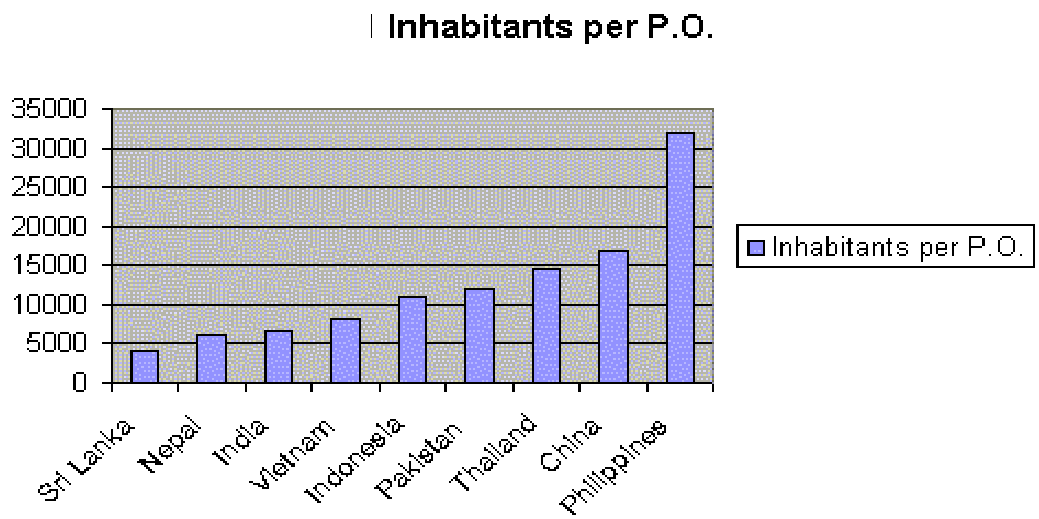
Since the postal markets in Asia are so diverse, it is essential that postal reform strategies focus on specific local conditions. Postal reforms strategies will need to address the position of the postal networks, their economic viability, and their ownership and management. A key question in those discussions concerns the future of the postal networks. As some countries in Asia have already shown, there is a tendency to reposition the post offices as service centers and retail shops, rather than traditional mail processing outlets. The small-scale privatization of post offices through agency and franchise contracts with individual private entrepreneurs is a common practice, especially in Thailand, the Philippines, and Indonesia.

2—Landscape of Asian Postal Networks

The Chinese and Mongol emperors were amongst the first in the world to establish postal messenger systems with horse relays and post offices to serve the messengers. The foundation for the current public post office system was laid in the eighteenth and nineteenth centuries. In most cases, they are a legacy of the colonial powers (British, French, Portuguese, and Dutch), colonial powers, but have developed in different ways after independence. In some cases, e.g., Thailand, the postal system developed indigenously, taking international practice into consideration.

Main Features and Data

The density of the postal networks in the Asian region, expressed in post offices related to population and related to geographic coverage, is considerably dense and represents a network that is omnipresent in rural and less developed parts of the countries. On average, there is 1 post office per 10,200 inhabitants. Of these postal networks, India has the single largest network of more than 155,000 post offices and China operates a network of nearly 80,000 post offices.



In Asia, postal networks have both post offices and postal agents. The postal agents are typically small outlets, operating under contract with a private entrepreneur or the municipality. In Thailand, 75 percent of the postal network is in the hands of agents, and in Indonesia, about 50 percent. Originally, the post offices were established to provide mail services, and post offices anchored the mail-processing infrastructure as the main points for collecting, processing, sorting, and distributing mail items. Increasingly, Asian postal operators are re-engineering their postal business processes. By creating large, computerized mail sorting centers, more mail can be more efficiently processed, which reduces sorting and distribution requirements at individual post offices. Post offices could thus become front offices.

Cross-country comparison shows that average per-capita volumes are relatively low, between 1 and 10 mail items per capita per year. With nearly 25 billion mail items in 2002, the total volume presents an impressive size. The number of mail items that post offices process, on an average day, exceeds 500 items per day. In Thailand, the figure is greater than 5,000 per day (if postal agents are not included). Productivity per postal staff member varies considerably. Thailand leads with 309 items per day per staff member, and in India, China, Sri Lanka, and the Philippines the range is 75–110 items per day per staff member.

Although mail services are supposed to be the core business of post offices, nowhere in Asia do they generate sufficient revenue and business volume to make the existing postal network financially self-sustaining. In most Asian countries by the early twentieth century, governments broadened the scope of the postal networks with savings, money transfers, insurance, and telegraph and telephone services, as well as public information services. The post office function shifted from a mail-processing entity to a publicly accessible center for communication and public information that also provided financial services. In several countries (China, Thailand, the Philippines), the need to further re-engineer the mail business has created greater cost-efficiency while developing new value-added services.

Initially, under traditional government accounting standards, this may have appeared to be a sensible economic measure. This diversification, however, also led to cross-subsidizing practices and lack of transparency in the financial performance of the different product lines offered through the postal network. Embarking on postal network reform without in-depth analysis of actual costs and benefits could be a hazardous approach.

Using the post offices as communication and information centers is reviving with the advent of the Internet, and a number of Asian governments are actively looking into information and communication policies that tap postal networks to provide e-government services and could change post offices into Internet cafés. This phenomenon is encountered in most Asia countries, including India, Thailand, China, Pakistan, and the Philippines, but approaches differ widely. In some cases (China, Pakistan, Thailand), the Internet (as an intranet application) is also used to process or provide financial services.

Mail is clearly a substantial business in Asia with moderate growth prospects. However in most cases the postal mail alone is not and cannot be operated economically through the existing postal networks. As the Asian postal markets become part of liberalized and global markets, the question whether to sustain such public infrastructure to provide access to mail services becomes pressing. Also, the impact of new technologies is Asia highly relevant.

In many Asian countries, postal networks have long had a role in postal financial and public information services. The issue of postal networks and their viability needs to be placed in the context of utilizing the post offices as front offices for the financial sector and as the basis for modern information and communication technology.

Postal Networks and Asian Postal Reform

Asian Postal operators saw dramatic changes in their businesses which they once used to operate as monopolies. In the courier, express, parcels, and logistics segments, strong competition has arisen from international operators and local private operators. In most cases, national postal operators have been left with an insignificant market share in the liberalized high-margin business segments because the framework to regulate competition is weak or absent.

The presence of DHL, TNT, UPS, and FedEx is overwhelming: they have established hubs with modern mail processing centers and nationwide networks for collection and distribution of courier, express, and parcel items. Through alliances with retail chains, such as “7-Eleven” stores, these integrators have some networks with coverage that equals the postal network in urban areas.

In addition all Asian countries have a large number of private local operators that provide express, courier, and parcel services. Prominent examples are Sinotrans and Yangtze Air Express in China; Bluedart Express, AFL Private, First Flight Couriers, Prakash Air Freight in India; Postal Express, CTI, and Fastrak in Thailand; and hundreds of smaller companies working within a metropolitan area only. In addition, other postal operators from the Asian/Pacific region and Europe have announced intentions of stepping up their presence in the Asian markets. AusPost (Australia Post) also reportedly wants to expand its regional presence and Japan Post wants to develop its international business. In a few cases, Asian postal operators have responded to the competition by building selected alliances or through mergers and acquisition of smaller operators in order to re-acquire lost market share. In most cases, the public postal operators have opted to face the competition alone in the liberalized postal segments

New technologies, such as fax, e-mail, and mobile communications, are taking the place of existing mail flows. Because the Asian consumer market is very technology minded, the appetite for e-mail and other electronic, Internet-driven communication is likely to be significant. However, since reports indicate that only a 150 million Asians (including Japan, Australia, and Korea) have Internet access, the impact on customer-to-customer mail flows is expected to be limited in the short term. The impact of fax and e-mail might be much stronger on the business-to-business segment, or on the business-to-customer segment with bulk mail flows, such as bank account statements, are increasingly being provided through self-service terminals in bank branches.

Postal mail flows in Asia depend mainly on corporate and public agencies to generate mail. In many cases, 80 percent of the mail volumes are generated by a few top corporations. The needs of these entities have become increasingly sophisticated, and many of them seek one-stop service, plus value-added services (such as warehousing, direct mail fulfillment, printing, and hybrid mail solutions. This increased client sophistication also calls for different methods and structures to serve large customers. Concepts such as relationship management have not been widely implemented by Asian postal operators.

The impact of liberalizing the postal market also implies that governments are less likely to financially support national postal operators over private-sector competitors. It also implies the need to improve cost accounting to distinguish between the cost and revenues from the reserved area and the liberalized area. On the other hand, governments in nearly all-Asian countries still set tariffs for postal mail services.

The strongly developing competition in some of the postal segments (parcels, courier, express) and the governments' tariff policies are inducing some Asian postal operators to diversify into other services to generate revenues while utilizing the same postal staff and post-office infrastructure. The drive for diversification is reinforcing interest by some of the Asian posts to develop postal financial services further. From the postal management point of view, these revenues could help offset declining revenues or margins in their core business areas. It could, however, also be an escape strategy that disguises their disinclination to address the fundamental issues in developing an economical and sound postal business.

3—The Asian Landscape in Perspective

Country-by-Country Profiles

China	
中国邮政 CHINA POST	China Post operates one the world's largest postal networks with 480,000 staff and 80,000 postal outlets. It is the public postal operator of China, handling approximately 7 billion pieces of mail per year. China Post faces competition in various business lines, e.g. express mail (more than 55% of the market is the hands of foreign operators), and retail banking. As part of its drive to improve efficiency in state enterprises, in 1998 the Chinese government separated the China Post from the Ministry for Information Industry, which formerly operated both post and telecommunications. The separated accounts of the state-owned China Post recorded a dramatic deficit of Chinese renminbi (RMB) 14.2 billion (USD 1.71 billion), while total operating revenues were at RMB 26.95 billion (USD 2.25 billion). The Chinese government required that China Post break even within 3 years (by 2001). This objective was achieved in 2002 as a result of the fast-growing postal financial services. China Post operates a postal savings bureau (PSB), which is a key area to bring in revenue for the postal service. Postal savings are provided at nearly 40,000 post offices. The postal savings network is approximately the same size as the entire bank branch network in China (37,000 branches). Postal savings has grown rapidly since its operational launch and in 2002 had 189 million accounts and more than USD 65 billion in deposits (a market share of 8%), and was the fifth largest deposit taker in China. Deposits are re-invested in the People's Bank of China which remunerates China Post with interest (recently brought in line with prevailing market rates) PSB operates an ATM network with debit-card linked accounts ("green cards"). It also provides 90% of the individual cash remittances in China (postal money orders). The transfer volumes amounted to 210 million transactions in 2002, comparable to about 15% of the total volume of cashless payments transactions in China. The postal network also plays a role in international remittances. It provides traditional international postal money orders, Eurogiro, and Western Union services. China Post has also developed new services, such as a life insurance agency, payroll services, mutual funds, and credit. Since China Post does not have the required licenses to develop and manages such products, it set up partnerships with various financial institutions.

Competitive edges of the postal savings are the large numbers of postal outlets, low charges, convenience, reliability, and long service hours.

Nearly 20,000 post offices have adopted auto-banking for current accounts using a universal real-time computer system. This real-time computer system is the largest in the country and contributes to efficiency and quality of services of the postal savings and remittances services. It also allows web-enabled applications.

In its 5-year plan and on-going discussions to reform China Post, the issue of establishing a postal savings bank has come up several times. China Post reportedly is said to have planned an initial public offering and wants to list on stock exchanges overseas.

Some of the main issues around establishing a postal savings bank are:

- expanding the range of financial services, creating a fully-fledged financial institution, and setting up a regulatory and governance framework in compliance with the financial sector;
- making the accounting between postal mail and postal financial services and the cost/revenues related to the postal network more transparent; and
- ensuring economic sustainability of the postal network after setting up the financial institution.

India

India Post is owned 100% by the Department of Telecommunications, under the Ministry of Communications. the government entity that operates postal services in India. India Post aims to provide reliable, efficient, and low-cost postal services that customers consider to be value for money.

India Post, founded in 1837, operates one of the largest postal systems in the world, with 155,000 post offices and 525,000 mailboxes, serving more than 1 billion people. More than 90% of these post offices are in rural areas.

In September 2002, the Government allowed advertisements in the postal network in an attempt to earn extra revenue for the cash-strapped organization. India Post has been running at large deficits, with revenues only covering 60% of expenses.

India Post embarked on a program of modernization and computerization, and modernized 60 post offices and installed 1,000 multi-purpose counter machines. Since then, several thousand more post offices have been modernized and computerized, but most of the rural post offices remain without technology and connections to communication networks. India Post computerized other segments of its postal operations, including mail processing, savings bank, and materials management.

Post offices also serve as service centers for local citizens. They collect bill payments across the counter for telecom service providers like BSNL, Mobilink, and Bharti. India Post is also an agent for Western Union for international remittances in several regions. Projects to provide domestic money transfer services via Western Union are being implemented.

India Post provides a number of banking services, such as the public Provident Fund Account; savings bank accounts, and post office time deposits. Essentially these are deposit products and provide convenience and access at low cost, enabling the majority to save. The other attraction is the tax-free interest earned on some of these deposits. These products are offered by the post office savings bank, which is operated under an agency agreement with the Ministry of Finance. It has more than 129 million savings accounts and this USD 16 billion in deposits is a significant force in household savings. The 129 million postal savings accounts compare to 412 million accounts held by all commercial banks in India, or 21% share in accounts and 7.5% in market share in deposits from individuals.

India Post also offers insurance. Postal Life Insurance (PLI) started in 1884 as a welfare measure for the employees of the post and telegraph department. Facilities are now available for employees of central and state governments, nationalized banks, and financial institutions, etc. In 1995, the benefits of PLI were extended to rural populations

	under the banner of Rural Postal Life Insurance. PLI has extended more than 3 million policies, with an aggregate assured sum of USD 20 million, of which 700,000 are under the rural scheme. India Post aims to broaden its range of financial services and to increase the use of its existing dedicated countrywide V-SAT network for EFT services India Post has initiated regional pilot programs with UTI Bank for local check clearance; high- value fund transfers and warrant payments with ICICI Bank and other banks; asset manager projects for mutual funds; and with an insurance company for a broader package of insurance services. In addition, some post offices in these pilot programs have been transformed into postal finance “marts” providing a broad range of financial services and access to the Internet. Links with microfinance institutions are also being considered. Although a major nationwide institutional reform initiative is not on the agenda, India Post is increasingly linking with the private financial sector to provide a broader range of services to generate more revenues and reduce the drain on the government budget. Mail service revenues cover less than 30% of the expenditure of India Post. Revenues from the post office savings bank interest rate (paid by the Ministry of Finance), the fees for money orders, commissions for other financial services, provides another 40% of revenue, and the state budget has to intervene to subsidize the remaining 40%. The government intends to reduce the subsidies.
Indonesia	
	PT Pos Indonesia is the largest counter-service postal chain in Indonesia, with 3,914 outlets and another 3,602 mobile units. Pos has a domestic monopoly on postal services. The Indonesian government through the Ministry of State-Owned Enterprises owns it. The company divides its operation into four divisions: Communication, Logistics, Financial Services, and Agencies. The Communication division provides ordinary mail, express mail, and airmail services throughout the Indonesian archipelago and has expanded into electronic mail service (Wasantara net). The Logistics division provides railway, sea, and air cargo services. The Agencies division is responsible for the postal network, also sells stamps, and acts as payment agencies for civil servant pensions. The Financial Services division is mainly responsible for the money orders throughout Indonesian archipelago and the relationship with banks that take deposits through the post offices. The money order market is primarily targeted at the middle-lower class, but volume is declining. Indonesia Pos used to be the agent for the postal savings bank (Bank Tabungan Negara) and later for Bank Rakyat. Relationships with these banks have continued, but are not actively developing. On a small scale, other relationships exist (e.g., for life insurance with Lippo). At the end of 2003, Pos concluded an agreement with Western Union for international remittances. Revenues from financial services for Pos are approximately 2% from payments services and 17% from commissions from banks for postal savings. Pos Indonesia is currently implementing an efficiency measure, “Zero Defect Postal Services.” The program enhances the ability to analyse Pos Indonesia’s system, human resource, facilities, and infrastructure. It aims to improve services (including late delivery, damaged or lost mail and parcels). In 2000 the government announced planned to privatize Pos Indonesia through an initial public offering and a strategic sale, after completing the restructuring program. The plan was put on hold following a change in government and poor operational profitability in 2001. It is not expected that the privatization of Pos Indonesia will be re-initiated in the short term.
Nepal	No data available

Pakistan

Pakistan Post (Pak Post) provides postal and financial services through 12,267 post offices with nearly 50,000 staff, particularly in rural areas. Given the 7,276 bank branches, it often is the only access point into the formal financial system.

Since 1999 PakPost has posted profits, and currently it is changing from public service accounting to commercial accounting. PakPost has been able to upgrade the technology for its operations with help from the Islamic Development Bank. Internet services were launched in the late 1990s and are widely available at post offices, attracting the interest of small entrepreneurs and providing limited financial services.

PakPost is the agent of the Ministry of Finance for a range of financial services including savings mobilization, life insurance, postal giro accounts, and money transfers. PakPost is also an agent for Western Union for international remittances.

PakPost's economic viability depends on developing financial services to generate about half of total revenues. PakPost sees a need to develop credit for small entrepreneurs and to attain a stronger position in international remittances, e.g., through Eurogiro. The legal framework does not allow this expansion, and partnership with Pakistani banks has not been considered.

The Philippines

The Philippine Post Corporation (PhilPost) is a government-owned company that operates the postal services through a network of nearly 2,500 post offices.

PhilPost is under the supervision of the Department of Transportation and Communications for purposes of policy coordination. The Philippine postal business is monopolized by PhilPost. Although the Postal Services Act of 1992 envisioned the participation of the private sector in PhilPost, it has yet to issue stock to private individuals. PhilPost claims that has an outlet in every town and city in the Philippines. PhilPost offers domestic mail, international mail, postal money order, lock box, and philately services.

PhilPost is the parent company of PhilPostbank, the successor to the post office savings bank. PhilPostbank is licensed by the Reserve Bank of the Philippines, and as a result is not allowed to use PhilPost's mail counters and windows. The bank is small, with a balance sheet total less than USD 5 million, and has fewer than 10 outlets. The bank provides deposits, payments, and credit services and applies modern technology, including ATMs in some post offices.

PhilPost provides a limited range of money transfer services. It is also said to have signed an agency agreement with Money Gram for international remittances, but it is unclear whether this has been implemented. Although the Philippines received more than USD 5 billion in home remittances from overseas workers, the role of the postal network (with nearly 2,500 post offices versus 7,500 bank branches) is virtually non-existent and could be valuable in channeling money through formal networks to the beneficiaries.

The government's twice intended to privatize the postal service in 2001 and 2003; advisers were appointed, but the mode of privatization was not decided. According to previous announcements, a stake of 55% of the capital could be sold. With the privatization of PhilPost, PhilPostbank would also be privatized. Recent discussions however pointed to different solutions, varying from retaining the postal bank as state property, to becoming responsible for the postal network, to selling the postal bank to overseas Philippine workers who would be interested in more cost-efficient mechanisms for remittances.

Thailand

Thailand Post was separated from the telecommunications division and incorporated in 2003 as a company with the State as sole shareholder. Thailand Post has 1,100 post offices with 4,400 postal agents. Thailand Post has operated at a deficit, primarily due to low mail tariffs that have not changed for 19 years. In 2004, a 50% rate hike was implemented, which could bring the postal service closer to break even. The incorporation of Thailand Post allows for a greater extent of commercialization and the government has plans to terminate subsidies to Thailand Post in 2007.

With the support of modern technology, Thailand Post provides an efficient “Pay-at-Post” option for bill payments to about 45 different companies. The total volume of payment transactions processed at the 1,100 post offices was nearly 20 million in 2002, representing 10% of total cashless payments in the country.

Thailand Post also provides money transfer services, including international remittances, both postal and Western Union.

After its incorporation, Thailand Post concluded agreements with 3 banks to expand its range of financial services. The possibilities remain limited because the Bank of Thailand issued regulations in 2003 stating that banks could not have exclusive rights, and that applications to open accounts must occur at bank branches. This limits the role of the post office as a payment collection agent for the banks.

Thailand Post could play a large role in the financial sector, through partnerships, in reaching out to the underserved since its network is present in every township unlike the banks’.

Sri Lanka

Sri Lanka Post has a network of more than 4,600 post offices, making it the densest network in the country, compared to 1,200 branches for all banks in the country. Sri Lanka Post has made several efforts to expand its postal services and increase its service quality. The dense postal network is a key asset and post offices help link the society. They also are centers of public information, education, and community meetings.

Sri Lanka Post provides money transfer services, international remittances, bill payment collection, and savings mobilization. It used to operate the Ceylon Post Office Savings Bank under an agency agreement with the Ministry of Finance. The postal bank had (untill the early 1970s) a significant market share (>25%) in deposits, but this has declined to less than 3% after its consolidation into the National Savings Bank (NSB), which mainly focuses its operations through its own small network.

There appears a broad consensus with the post, the NSB, the Central Bank and the relevant ministries that the postal network could play a more active role in providing financial services, particularly in rural areas. Several private banks are interested in partnering with the post. However, decisions for implementation have not been made.

Vietnam

Vietnam Post is still under one roof with telecommunications, forming the VPT. Vietnam Post has a reported 9,700 postal outlets, of which nearly a 3,000 are post offices.

The Vietnam Postal Savings Service Company (VPSC) was established in 1999 with assistance of Japan Post and is one of the youngest postal savings schemes in the world. It operates under the authority of VPT. Its main functions are to provide a savings product for the underserved (rural, women, and poor) populations of Vietnam, and to mobilize savings for government development investments.

The VPSC gradually is expanding its coverage in the postal network, and reportedly operates in nearly 800 post offices. Of those operational only a small number are computerized, so VPSC operations are essentially manually processed and paper based.

VPSC offers time savings, demand deposits, and a limited money transfer system for clients. In the computerized post offices, it has started to offer payroll services. Time savings make up the vast majority (95%) of the deposits officially, although approximately 30% these accounts are withdrawn early, earning a lower interest rate and effectively making collection deposits 35% of the total deposits.

There are more than 500,000 deposit accounts with the VPSC, which cumulatively holds Vietnamese dong (VND) 7 trillion (USD 450 million) in deposits. A part of the money is transferred to the Vietnamese Development Assistance Fund which uses it to fund developmental projects. Part of the money is also held with the Ministry of Finance and other government development banks. The terms and interest rates applicable for the funds provided by VPSC are part of an on-going discussion, and seem to limit VPSC's competitive position in the market. Its current framework also limits the role of VPSC to provide the rural and poor population with a broader package of financial services.

The VPSC has made an impressive start demonstrating that it can fill in certain gaps in the provision of basic financial sector. It faces considerable challenges in the near future, including:

- its regulatory and governance framework, related to the financial sector and its role in development finance;
- its relation to the postal network and the postal services, in particular after the postal services are split from telecommunications; and
- Its operations—if growth continues and competition develops—which need to be computerized to provide efficiency and reliability, and funded or financed for further modernization.

Cross-Country Overviews

Product Diversification

Country	Cash Payments	Postal Giro Accounts	ATM Cards	Int'l Remit-tances	Postal Savings	Life Insurance/ Pensions	General Insurance	Credit	Mutual Funds
China	4		4	4	4	4			4
India	4			4	4	4			4
Indonesia	4	4		4	4				
Nepal	4			4	4				
Pakistan	4	4		4	4	4			
The Philippines	4			4	4				
Thailand	4			4					
Sri Lanka	4			4	4				
Vietnam	4	4	4	4	4				

The product range of postal financial services is centered on postal savings; cash-based payment services are also available at the postal counters in most postal networks. In some countries (China, India, Pakistan, Vietnam), product expansion is underway, particularly for payments (account- or card-based payments), insurance, and mutual funds. Discussions about extending of credit emerge, but no decisions or plans to implement have been forthcoming.

Postal savings are the most significant because they provide both rural inhabitants and poor communities with access to such basic services as safekeeping their money. Postal savings services in most countries encompass a range of 10 or more deposit products, varying from traditional pass books to accounts, and from demand deposits to long-term deposits. Deposit rates tend to be slightly competitive in India, Pakistan, and China, compared to deposits with banks, and initial deposit requirements are very low. The deposits are presumed safe, as they are implicitly or explicitly guaranteed by the state.

Most Asian postal operators also provide international remittances. The traditional international postal money orders have a very small role, with an estimated USD 250 million in a market which has been estimated to exceed USD 30 billion. Although there are initiatives to implement the UPU's International Finance System, an increasing number of postal operators have signed agency agreements with either Western Union or Money Gram. Apart from China, none of the postal operators is a member of the Eurogiro network.

The fairly narrow product scope is clearly a legacy of the past and a result of the current institutional framework. The services offered by the state or the post are liability-based. Credit products are unavailable at through the post because no individual credit risk assessment is performed at post offices. Interest by the post offices and involved postal banking entities to widen the range of services, however, demands that current legal and institutional frameworks be reviewed. Although discussions on reforming the postal savings banks occur, short-term priorities are on establishing partnerships with financial institutions that focus on introducing only one or more products.

Institutional Settings for the Post

All postal financial service entities in the Asia region are fully state-owned, and even more, they are in nearly all cases a division or department within the postal services. In these cases, the financial services are not fully regulated by the financial sector. Only in the Philippines is there a licensed postal bank which, paradoxically, is not allowed to operate through the postal windows.

Institutional Aspects of Postal Financial Services

Countries	State Ownership	Independent Legal Person	Regulator	Relation to Post Offices	Shared Functions with Posts
China	100%		Gov't/CB	Internal	M + Ops
India	100%	Post office savings bank	Gov't	Internal	M+ Ops
Indonesia	100%		Gov't	Internal	M + Ops
Nepal	100%				M + Ops
Pakistan	100%	Post office savings bank	Gov't	Internal	M + Ops
The Philippines	100%	PhilPostbank	CB	Internal	
Thailand	100%		CB	Internal	M + Ops
Sri Lanka	100%	National Savings Bank	CB	SLA	
Vietnam	100%	Vietnam Postal Savings Service Company	Gov't	Internal	Ops

Legend: CB = Central Bank; SLA = service level agreement; Ops = operations; M = management

In Sri Lanka and Indonesia (and also Malaysia), postal savings have been transformed in the past into general savings banks that maintained relations with the post office, but actual operations have decreased in significance. In these cases, there is a long-term agreement which sets out the operational conditions and remuneration for the postal network.

Thailand is different. Thailand Post's own operations play a significant role in bill payment processing in the country, and recently the Bank of Thailand has ruled that Thailand Post can establish limited agency agreements with banks on a non-exclusive basis.

Postal Revenues from Postal Financial Services

Postal financial service revenues make up a significant portion of total postal revenues. In Pakistan and India, they amount to nearly 50 percent of total revenues. For postal savings, the revenues stem from the interest margin between the customer interest rate and the rate paid by the Ministry of Finance or other government banks. This rate does not in all cases reflect actual market conditions. An in-depth diagnosis of the actual cost-benefits for the government in mobilizing deposits through the postal networks is not available, but would be required to adequately assess the reform of post office savings banks and postal services.

4—The Landscape in Perspective

Although the origins can still be traced, the postal financial services in the subcontinent have developed in different directions. From an institutional point of view, there appear two main directions in development. One is the continuation of the postal office savings bank operating under the agency agreement of a ministry of finance, money transfer services offered by post offices, and in some cases additional products offered through partnerships with private financial institutions. This happened in India, and essentially in Pakistan, Bangladesh, and Nepal.

The other model emerged in the 1970s featuring the consolidation of the postal office savings bank into a national savings bank, which continued to provide services through the postal network. This is the case in Sri Lanka and Malaysia. Malaysia differs from Sri Lanka in that at least five other banks work through the post offices to offer one or more products. The postal office savings bank in Singapore merged with DBS Bank in the 1990s and eventually separated its operations entirely from the post office. Remarkably, after SingPost was privatized, it became interested in providing financial services and prepared a business plan in 2004 to develop retail financial services that might generate 30 percent of overall revenues.

Japanese postal savings is a phenomenon deeply rooted in that nation's culture. Established in 1874, it remained the main source of indigenous mobilization of financial resources. At the beginning of the twentieth century, influenced by the Japanese example, postal savings were introduced in Korea and China. Korea and the Republic of China continued to mirror the Japanese model, but like the Soviet Union, China took a different course and created a mono-bank system with no place for a separate postal savings entity. However, postal savings were re-established in 1984 with assistance of the Japanese government. Japanese postal savings has also inspired recent initiatives in Vietnam, Laos, and Cambodia where at an earlier stage other models (French, British) have been operational but were discontinued after independence.

Reform and eventual privatization of the Japanese postal savings are a key issue in the domestic policy of the Koizumi administration, which currently envisions full privatization before 2017. One may expect that these policy reforms will be followed in the region. Taiwan reportedly has made preparations to privatize its postal service, including postal savings bank with 22 million accounts and USD 80 billion in deposits through an initial public offering. The state postal services were incorporated into a commercial company structure as Chung Hwa Post.

The postal system in the Philippines after the end of World War II was based on the US model, implying a limited role for postal financial services. A postbank was established only in the 1990s. The Dutch exported their model of postal savings bank and postal giro services to Indonesia. After both the Philippines and Indonesia became independent, both postal service models continued. The postal savings bank in Indonesia (Bank Tabungan Negara) operates independently from the post offices as a full-fledged commercial bank. Giro services were continued within the post, but declined in importance.

In Thailand, the idea of creating a post office savings bank has been circulating since Victorian days. However most of the mission and function has been given to the government savings bank, and discussions about postal banking has revived only recently.

Australian Post (AusPost) is a network provider for nearly all Australian banks, both for bill collection and deposit mobilization. This service is efficient and helps the banks reach out to areas where bank branches are not commercially viable. For AusPost the service has been tremendously important in its economic and commercial changes since the late 1980s, providing up to 25 percent of total revenues. In view of the growing "electronification" of recurrent payments and increased possibilities of saving on-line, AusPost faces the challenge of maintaining the viability of this service.

New Zealand Post operated a post bank as a subsidiary until 1988. It was privatized and sold to ANZ Bank, and post offices continued to provide a limited range of financial services, mainly bill payments. During this time, New Zealand Post was modernized, and its commercial transformation has been widely lauded and held up as an example for other postal operators. At the end of the 1990s, the issue of re-establishing a post bank re-emerged and actually implemented in 2001 as "Kiwi Bank." It was capitalized by the government and operated under a license and under control of the post. It is assumed that the banking operation provides a better outreach throughout the country and significantly contributes to the viability of the postal network.

In conclusion, the landscape of Asian postal financial operators presents a diverse picture. It does not showcase one single model to be followed for postal reform or for development of postal financial services. It is a landscape where policymakers can choose lessons and examples from other countries to learn from, but eventually must design reform strategies for the actual and specific conditions of their countries and their positions in the international economy.

Postal Networks as Points of Access into the Financial System

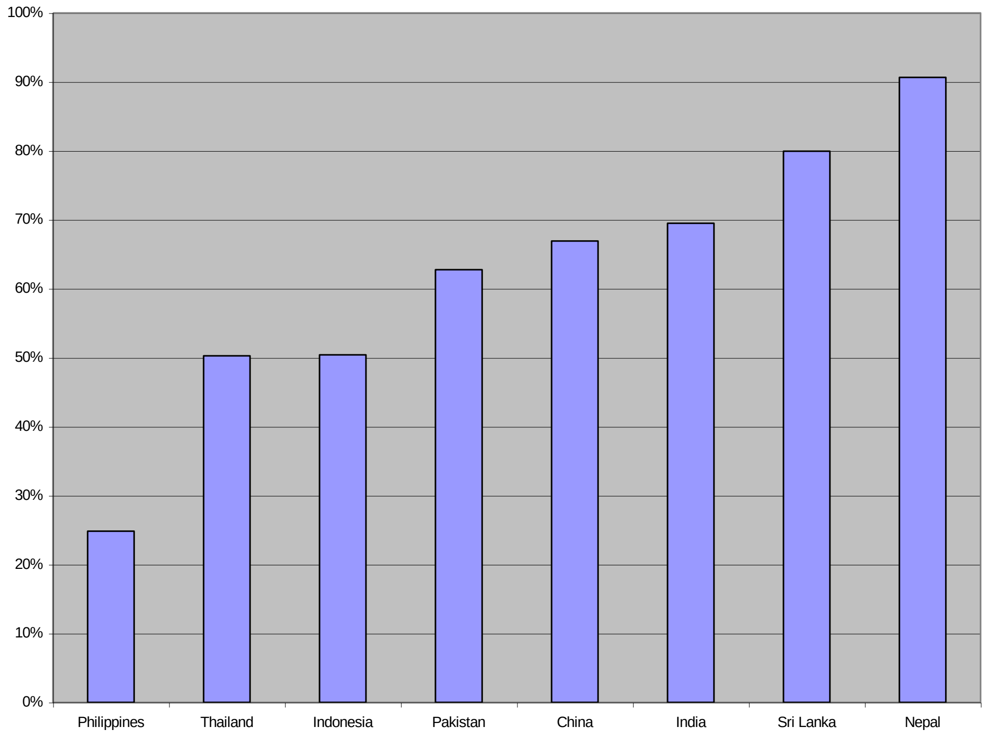
The Asian postal networks are dense and large not only in absolute terms, but in comparison to retail or banking networks. In the nine countries reviewed here, there are approximately 150,000 bank branches compared to 289,000 post offices. The bank branches are run by more than 10,000 different institutions, some operational in all nine countries, others just in one town. Some bank branches are simply not open to individuals; others only cater to the well-to-do. In general, bank branches are driven by commercial motives and are concentrated in urban and developed areas.

Postal networks are more equally dispersed throughout the countries, as they were originally set up as part of a logistical and transport process to be present in every administrative unit (municipality, community, township). From this point of view, drawing the existing post office infrastructure as access points into the financial system (and information and communication systems) deserves thorough consideration. If actively involved in the financial sector, postal networks could provide more than 60 percent of the access points into the formal financial sector. At this moment, fewer than 200,000 post offices are actually providing financial services.

This is particularly relevant in the Asian economies which are known for their appetite for high-technology but in practice are largely cash-based economies. In cash-based economies, the number of physical outlets is a critical factor for serving a large number of clients. With more than 335 clients in the region, postal networks clearly demonstrate that they can fill in gaps in access to financial sectors. However, even with 60 percent share of the outlets, post offices reach out to less than 2 percent of the adult population, which suggests certain shortcomings in the offer made by post offices. These shortcomings can be explained to a certain extent by the weakly developed marketing approaches. Product ranges are incomplete, and customers have to go to actual banks if and when they need more advanced payment products, credit, or insurance. Products are weakly promoted and advertised, if at all, and if no modern technology is added, reliability and quality of service may be inadequate.

Postal networks are to a large extent dependent on the revenues from financial services. In some networks, only the revenues from their own postal financial services are reported under this component, while revenues from contracts with external institutions (Western Union, bank partners, mutual funds) are accounted for under third-party services, along the sales of phone cards and lottery tickets, for example.

Post Offices: Percent of Access Points in Financial System



The Role of Asian Post Offices for Payments Services

Of all financial services, one can consider payment services the most basic. Although Asian post offices are active in the national payments systems, in most cases this is related to cash-based and paper-based payment instruments only, such as postal money orders. These instruments allow individuals to transfer money to domestically or to a bank account, while paying the cash and commission at the post office. In addition, certain other payment functions are fulfilled, primarily distribution of cash from public agencies to individuals (pensions, social benefits, salaries) and collection of tax payments, and utility and telephone company bills. In some cases, ATM cards and on-line payments services have been added

However, the volumes of payment transactions settled through the post offices are relatively low. With the exception of Thailand and China, the role of the postal network is fairly marginal, although there are several initiatives to expand the role of the postal network. There are no widespread traditions of offering account-based or card-based payment services through the post offices.

As elsewhere in the world, most of the countries reviewed in the Asian region are in the process of upgrading their national payments systems. These programs, lead by the respective Central Banks, aim at reducing risk in the payment system, reducing cost, improving efficiency through standardization and new technologies, and creating better conditions for the use of cashless payments instruments to make them available to more participants. Although the reports of the Central Bank authorities mention the valuable role of post offices in the payment systems, the post offices are not participating in the modernization projects, and there is no explicit role envisaged for post offices in providing cost-efficient access to cashless payment instruments. Moreover, in nearly all cases, neither the post offices nor the postal banks are members of, or linked to, the clearing houses. Instead they must settle directly with the involved financial institutions.

Privately owned bank branches often tend to have prohibitive thresholds for low-income and rural inhabitants who want to settle cash payments. In this situation, the post offices could play a critical role by transforming the cash-based payment system into a cashless payment system that is broadly accessible. The post offices could facilitate nationwide and standardized access to the cashless payment system. Payments are a service that can provide individuals (including those who are poor and/or live in rural areas) with basic access to the formal financial sector. The payments system is the fundamental bloodline of the financial system, and an infrastructure which significantly can contribute to the efficiency and soundness of the entire financial system.

If individuals could actually open payment accounts (debit cards, giro accounts, or bank accounts, etc.) banks could keep track of their payment behaviors. The payments system infrastructure could then be used over time to offer other financial products, such as savings and credit. Through the involvement of large numbers of participants in the payments system, the cost per transaction could be lowered, operations could achieve more efficiency, and more funds in transit could be accumulated.

Why postal networks are not included in the design of new cashless payment systems is unclear. It may stem from a lack of interest by the postal organizations and postal bank themselves, but it presents a potentially large void in the development of efficient and easily-accessible payment systems. This also presents the risk that the associated infrastructure (ATMs, EFT POS terminals, etc.) and cashless payment instruments will remain costly and will lack efficient standardization (because of small volumes). And, ultimately, the payment system will remain only accessible and available to medium- and high- income groups.

A policy to improve access to financial services would have to start by providing a broad section of the population with access to cashless payment systems. Therefore, the option of involving postal networks as points of access to the cashless payment system should be more closely considered, as it might ultimately present a better business case for the development of cashless payments systems.

The Role of Post Offices in International Remittances

Migration from, to, and within the Asian region is growing. In view of the large communities of Asians migrating to work abroad (to the Middle East, United States, Europe, and other Asian countries), there is also a growing flow of money send home. According to data from the International Monetary Fund and World Bank, these flows amounted to more than USD 30 billion in 2002, with India showing USD 10 billion, and the Philippines more than USD 5 billion.

Post offices used to play a significant role in remittances through their universal service of international postal money orders. However, this product has lost much of its attraction in Asia, as it is slow, cumbersome, and relatively costly, and in some cases the money never arrives. Postal networks share in this market is estimated at less than 0.8 percent. Complaint ratios are above 10 percent, and an increasingly large number of industrialized countries have terminated paper-based service after September 11, 2001, because the process allowed easy money laundering and transmission of funds for crime and terrorism.

The services offered by other parties, such as Money Gram and Western Union, have captured a large parts of the market for international remittances. It is remarkable, but in Asia their positions are far less dominant than in Latin America, for example. A number of posts have signed agreements with providers of these services, but a large part of the Asian market is still left to other smaller networks, drafts and checks, and other paper-based solutions.

The postal services have undertaken initiatives to upgrade their own products for international remittances. One solution mainly applied for traffic between Japan and the reviewed Asian postal services is the application offered by the UPU’s IFS. This brings more efficiency and speed in data communications, but traffic volumes are still very small and likely to remain so because it does not interface with the main corridors of remittances.

A more advanced solution is Eurogiro, which comprises a network of more than 40 postal services and postal banks, mainly based in Europe, plus Japan and China as members.

A large number of migrants have family in poor rural areas, which they support by sending money. Renovating the postal financial services by connecting the postal networks to international remittance systems and using these flows to expand and upgrade access to financial services for the recipients could be an economically sensible approach. It could also generate considerably more revenues for the posts in the short term, upgrade the posts' reputations, and subsequently build customer bases for more postal financial service products. A challenge for postal networks in Asia will be to build effective cross-border cooperation for international payments or opt for agency contracts with international firms, as Western Union and Money Gram.

The Role of Post Offices in Savings

The role of postal networks in Asia has often been praised as one the most effective ways to bring access to formal financial services to poor and rural communities. The benefit proposed for poor and rural communities has mainly been the safekeeping of their money and the interest earned on it. For the many who are unable to assess the reliability of the financial institution to pay back their deposits or who fear they would not be acceptable to banks, the post office plays and could play a significant role in capturing deposits.

Data confirm that national postal operators in the Asian region keep more than 335 million accounts, an estimated 20–25 percent of the adult populations. This is significant, but the accounts are not frequently used: reports suggest 1.1 transactions per year per account. Some of the savings products are indeed long-term programs that would require only 1 transaction in 2 or 3 years. The majority of the accounts are demand deposits, however, so one would expect higher transaction volumes or else presume large numbers of accounts to be dormant.

The average balance held in postal accounts is USD 245, suggesting that postal savings indeed cater to small savers. However further analysis looking into the actual distribution of the balances would be required for more detailed comment. If the data include large numbers of dormant accounts with balances close to zero, one would arrive at a very different assessment.

In nearly all cases, the postal savings are transferred to the Ministry of Finance, which remunerates the post office for the funds mobilized. Given the low transaction figures, the volatility of the deposit base would appear minimal. The postal savings seem therefore to provide a very stable basis of low-cost funding. For this reason, it may be tempting for Governments to continue the postal savings. A more in-depth diagnosis, including the fuller context (cost of sustaining the postal network through subsidies, the impact on tax revenues if the postal savings were operated on commercial terms, the implicit cost of the government guarantee etc) might however bring a different view.

The Role of Post Offices in Credit

Traditionally, Asian post offices have been restricted from providing credit to companies and individuals. This has been the case in the countries reviewed here, although recent discussions in China may allow postal savings to link to rural credit cooperative schemes. In most other countries, the idea of extending credit gets considered but not implemented. The role of post offices in credit is difficult to envisage without major reform that ensure that strong and intrinsically sound institutions are involved in rendering the credit.

5—Conclusion

It appears that Asian postal networks have a particularly strong role in providing access to basic financial services, mainly centered on savings. Although the models applied in Asia are different, they tend to have shortcomings for optimally reaching out to the market and capturing the potential. Discussions on developing the postal financial services have gotten increased attention. This is partly because postal networks could help reach out to the estimated 1 billion underserved Asians, but also could reinvigorate the economic viability of the postal networks that come under increasing pressure as postal markets are liberalized and become more competitive.

In the countries reviewed, there are no separately-managed postal banks of substance. The posts themselves manage and operate the financial services, and largely depend on revenues from the financial services (with exception of Thailand and the Philippines). The key issue remains restructuring the posts into market-oriented businesses with management competent to develop the business. In spite of the diversity in the Asian region, it is yet too early to identify success patterns or examples of partnerships between banks and postal operators. So far, product partnerships are only being tested in India and China. Another issue is separating the post office savings banks from the posts. If they are separated and merged with other banking groups, which already have networks, this could lead to a significant business decline in the postal network, raising policy and fiscal issues for each government.