



**GUIDING PRINCIPLES
FOR POSTAL FINANCIAL SERVICES REFORM**



Guiding Principles for Reform of the Postal Financial Services

Hans Boon



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

© The International Bureau of the Universal Postal Union
Weltpoststrasse 4
Berne, Switzerland

All rights reserved

Disclaimer

The findings, interpretations and conclusions expressed here are those of the author(s) and do not necessarily reflect the official views of the Universal Postal Union.

Right and permissions

The material in this work is copyrighted. No part of this work may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or inclusion in any information storage and retrieval system, without the prior written permission of the International Bureau of the UPU. The International Bureau of the UPU encourages dissemination of its work and will normally grant permission promptly.

For permission to photocopy or reprint, please send a request with complete information to Postal Financial Services Programme Manager, International Bureau UPU, Case Postale, 3000 Berne 15, Switzerland; e-mail: sg.nanba@upu.int

All other queries on rights and licenses, including subsidiary rights, should be addressed to the Director of Operations and Technologies.

This text was prepared by Mr. Hans Boon, a senior expert from Postbank, the Netherlands in cooperation with the Postal Financial Programme of the International Bureau of the UPU.

Abstract

In many countries, post offices play an active role in the provision of basic financial services to all segments of the population, including rural communities, senior citizens, women and the poor. Post offices help to pool small savings and to efficiently process bulk small-value payments. This paper reviews the origin and history of the postal financial services, provides an international overview of trends and developments, and highlights existing practices in reforming and modernizing the postal financial services. The paper puts forward ideas and institutional models that can be taken into consideration for the reform of the postal financial services.

Key words:

Postal financial services, post offices, postbanks, giro, postal savings, affordable access to the financial sector, viable postal sector development, payments system, project approach, partnership.

UNIVERSAL POSTAL UNION

Guiding Principles for the Reform of Postal Financial Services



© UNIVERSAL POSTAL UNION
International Bureau
Weltpoststrasse 4, Berne
Switzerland

Table of contents

TABLE OF CONTENTS	4
1 PREFACE	5
2 GLOSSARY OF ABBREVIATIONS	8
3 INTRODUCTION	9
4 ORIGIN AND HISTORY OF POSTAL FINANCIAL SERVICES	17
5 INTERNATIONAL SCENARIO	26
5.1 EUROPEAN UNION AND WESTERN EUROPE	26
5.2 CENTRAL AND EASTERN EUROPE	32
5.3 COMMONWEALTH OF INDEPENDENT STATES	39
5.4 AFRICA	42
5.5 ASIA/PACIFIC AND THE MIDDLE EAST	44
5.6 AMERICA: NORTH AMERICA, LATIN AMERICA AND THE CARIBBEAN	47
SUMMARY	48
6 BEST PRACTICES - HIGHLIGHTS	49
6.1 MARKET POSITIONING STRATEGIES	50
<i>Market-Entry Strategies</i>	50
<i>Market Position, Profile and Branding</i>	50
<i>Market Research</i>	52
<i>Mass Market</i>	52
<i>Stable Growth Perspective</i>	53
<i>Time-to-market</i>	53
<i>Sufficient Margin</i>	54
6.2 PRODUCT ARCHITECTURE	54
<i>Product Design</i>	54
<i>Product Launch</i>	55
<i>Lead Products and Product Packages</i>	55
6.3 CLIENT SEGMENTATION	56
6.4 MARKETING	57
<i>Sales and Promotion</i>	57
<i>Pricing</i>	58
<i>Multichannel Distribution</i>	59
6.5 BUSINESS PROCESS DESIGN	59
<i>Reliability</i>	59
<i>Cost Efficiency</i>	60
<i>Standardization</i>	60
<i>Technology</i>	60
<i>Internet</i>	60
<i>Compatibility</i>	60
<i>Primary Processes and Secondary Processes</i>	61
6.6 PROJECT DEVELOPMENT METHODOLOGY	61
7 CONCLUSION AND RESULTING INSTITUTIONAL MODELS	62
7.1 A PFS BUSINESS UNIT WITHIN THE POST	63
7.2 AGENCY AGREEMENT	64
7.3 POSTBANK SUBSIDIARY	65
7.4 POSTBANK JOINT VENTURE	66
7.5 PRIVATE SECTOR PARTNERSHIPS	66
7.6 SUMMARY	67



**GUIDING PRINCIPLES
FOR POSTAL FINANCIAL SERVICES REFORM**

1 Preface

"... But the real money lies in other uses for the Post's infrastructure. It wants to turn the company into a full-fledged distribution and logistics group, offering everything from one-stop billing to financial services, where the margins are higher than on mail delivery.

As everywhere, it will take more than letters and stamps to build a profitable postal system."

Source: The Economist, 4 January 2002

Increased interest in postal sector reform: a breakthrough in the vicious circle of low investments and poor quality is the main goal.

On a world-wide scale, governments are taking an increased interest in the issue of postal reform. Much of the discussion focuses on building a viable business case for the posts to fulfil their mission in a changed, liberalized and globalized market. Crucial to building a sustainable strategy for postal reform is finding a break-through in the vicious circle of low investments and poor performance, trends that eventually send the posts into a downward spiral.

Postal reform strategy studies focus on 'redirecting' mail and overlook the potential of financial services through post offices.

**FINANCIAL
SERVICES**

-Revenues
-Investments
-Cross-selling
- ...Economic viability
of post offices

In the currently available studies on postal reform, the emphasis tends to be directed towards finding a solution to regenerate the posts within the relatively narrow context of core mail services. These studies also tell that the growth potential of mail (expressed in letters per capita) is strongly related to the gross domestic product (GDP) growth rate per capita. This typically limits the prospect of a fast turn-around. However, an analysis of the financial sector may lead to significant growth opportunities. A particular strength may be the solid reputation of the posts and the density of the post office network versus the banks' branches network. Post offices can fill in a tremendous gap in the financial sector distribution channels or 'infrastructure'. Practice provides evidence that the downward spiral of many posts can be turned around through delivery and acceptance of financial



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

services. This opens the opportunity for the posts to develop new activities, earn higher margins, attract additional clients and generate more revenues. Moreover, it opens the opportunity for posts to create or improve their own financial services entities, to develop a certain kind of partnership with financial institutions, to attract investments in the post offices, and to develop cross-selling with new high-quality services.

Financial services can help to initiate or accelerate the turn-around process of the posts.

In more than 160 countries, posts offer basic money transfer services. In approximately 60 of these countries, posts have a long tradition of rendering financial services, ranging from basic payment and savings services to full banking services. In the majority of the 60 cases, these financial services have become an important source of revenues, cross-selling opportunities and investments for the postal infrastructure. Implementation of a modern concept of postal financial services can help to significantly cover the cost of the post office infrastructure and to attract investments contributing to the modernization of the post offices.

Few postal reform strategies, however, have been based or initiated on the merits that the implementation of a full-fledged financial services concept through the post offices can bring to the entire postal organization.

In some postal reform strategies, the financial services have been separated from the posts and subsequently terminated.

In some of the postal reform strategies, the posts and their financial services have been separated, and subsequently the provision of financial services through the posts has been in decline or has been terminated. In some other cases of postal reform strategy, the relevance of the financial services has been overlooked and subsequently the reform approach has not rendered the desired results. In other cases, the postal reform options have remained too limited because the laws regarding financial services restrict or prohibit the involvement of the post offices.

Interest in reforming or introducing postal financial services has grown strongly. Reform requires a prepared, well-informed, decision-making process.

The need to produce this document was voiced at the Expanded Debate on Postal Financial Services, during the XXII UPU Congress. The Debate made clear that there is a broad interest in guidance to find feasible ways to revitalize the existing postal financial services and to accelerate the implementation of modern new postal financial services. The Debate also demonstrated that there is no single recipe for successful reform of the postal financial services.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

This paper aims to provide the stakeholders dealing with issues in the postal sector and financial services sector with information on backgrounds, rationale, options, models and approaches to the reform and modernization of the postal financial services.

It presents lessons drawn from experiences in postal financial service reform in industrialized economies, as well as in emerging economies.

The document may be instrumental for stakeholders to prepare informed decisions, to assess the options for postal financial services reform and to prepare, plan and accelerate the process of reform.

‘Guiding Principles for Postal Financial Services Reform’ intends to be instrumental in preparing the reform process, but further innovations in postal financial service development are ahead of us.

Since the XXII UPU Congress, the pace of reform of postal financial services seems to have gained momentum. Some countries have pioneered innovative options to reform the postal financial services and one may assume that the near future will bring further innovations in this field. In particular, the impact of globalization, liberalization and internal cooperation and the creation of new technologies (Internet) are expected to result in the emergence of new options for postal financial services reform.



**GUIDING PRINCIPLES
FOR POSTAL FINANCIAL SERVICES REFORM**

2 Glossary of Abbreviations

ADB	Asian Development Bank
AFDB	African Development Bank
ATM	Automated Teller Machine
BIS	Bank for International Settlements
BLT	Build-Lease-Transfer concept
BOT	Build-Operate-Transfer concept
CEE	Central and Eastern Europe
CEO	Chief Executive Officer
CIS	Commonwealth of Independent States
EBPP	Electronic Bill Presentment and Payment
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
GDP	Gross Domestic Product
EU	European Union
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
PFS	Postal Financial Services
PMG	Postmaster-General
PPO	Public Postal Operator
UPU	Universal Postal Union
USD	United States Dollar (\$)



**GUIDING PRINCIPLES
FOR POSTAL FINANCIAL SERVICES REFORM**

3 Introduction

Postal financial services: a third road between traditional bank branch banking and on-line Internet banking.

Postal financial services can extend the financial sector to un-banked communities and to remote and rural areas.

The economic viability of post offices, including their modernization to provide public Internet access, largely depends on financial services.

W

hat are postal financial services? Some people associate postal financial services with outdated, dusty and marginal transactions of paper-based, postal savings passbooks and slow postal money orders. This is a misconception.

Postal financial services are a modern marketing concept which aim to provide, transact and sell a broad range of financial services through the post offices, supported by a multichannel distribution system which is based on new technology, including telecommunications and Internet. Usually, Postal financial services do not transform post offices into bank branches. The concept features essential differences from the traditional approach of selling and providing financial services through branches of savings banks or commercial banks. Governments in the 19th century initially established postal financial services to provide secure and safe deposit and payment services throughout the entire nation, and to mobilize and pool these monetary resources for economic development. The concept has been successful and valuable in many countries around the world, particularly in the last half of the 19th century and the first half of the 20th century.

The dramatic changes in the financial services industry that started in the 1960s have made the original models for postal financial services in many cases inadequate. Reform is needed, and a growing number of countries are progressing in their implementation of postal financial services. Governments and central banks of many countries and relevant multilateral organizations (IMF, BIS, EU and development banks) share a policy view which seeks to diminish the role of the state in the increasingly globalized

Postal financial services worldwide:

- **More than USD 3 trillion in deposits;**
- **More than 700 million accountholders (both individuals and companies) and many more cash transactions;**
- **More than 10 billion money transfers per year.**



**GUIDING PRINCIPLES
FOR POSTAL FINANCIAL SERVICES REFORM**

financial sector.

Profile of financial services offered through the post

- **Customers**
Focus on local consumer market and large corporate entities (employers, utilities)
- **Products:**
Full range of standard financial products and services
- **Distribution:**
Direct marketing approach via multichannel distribution
- **Institutional:**
Different options, trend towards partnership with fully-licensed financial institutions

The specific profile of postal financial services is based on the idea of providing the local mass consumer and micro enterprise market with standardized financial services as well as providing the corporate market with cost-efficient payment services and related financial services, using the post offices as the physical and tangible interface for sales, transactions, information and advice. The post office is supported by a multichannel distribution system that includes mail, telephone, the Internet, ATMs, and mass media communications.

There are different options to structure the postal financial services. Apart from postal financial service entities closely linked to the posts, such as PFS departments or PFS legal entities (being subsidiaries of the posts), one of the main trends in reforming and expanding the financial services is the creation of a partnership between the posts and licensed financial institutions.

The partnership with a financial institution, often named ‘Postbank’ and often created by transforming former postal financial service entities of the post, could be shaped as :

- a joint venture between the post and a financial institution;
- a separate (even foreign) financial institution with a long-term cooperation contract with the post.

Posts acting as global players in transport and logistics appear as investors and owners in financial services or payment service operations; e.g. Deutsche Post World Net is owner of the



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

Deutsche Postbank A.G., and TNT Post Group operates Global Collect as an international payments service.

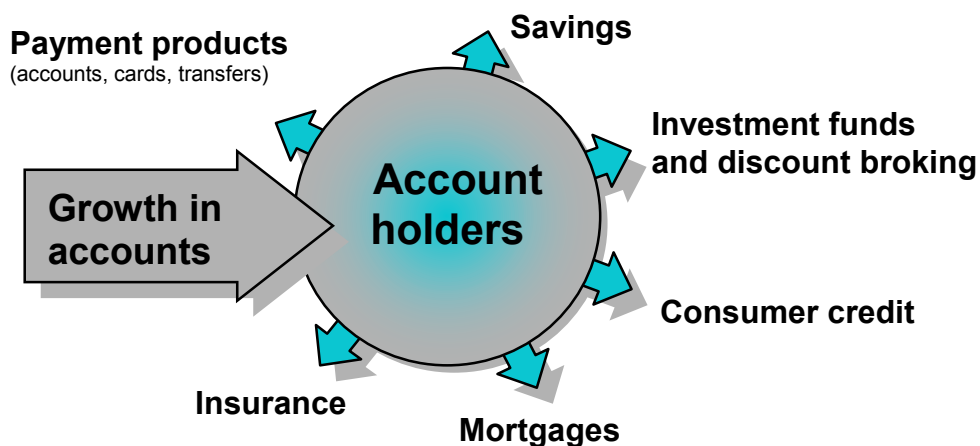
Increasingly, the global top 100 financial institutions, such as the American Insurance Group (AIG), Citibank, Deutsche Bank, ING, Fortis, Merrill Lynch, TSB Lloyds, Union Bank of Switzerland (UBS), Raiffeissen Zentral Bank (RZB), Nordea, Sampo, and Allied Irish Bank (AIB) function as partners of postal operators.

Often a partnership is created which results in a competent licensed financial institution managing the postal financial services and assuming the risks, while the post office network has an intermediary or front office role (i.e., in sales promotion, cashier operations and distribution of information, cards and other instruments).

The postal financial services are presumed to be predominantly liability-based and the intrinsic nature of these products, mainly postal savings and payment accounts and cards, excludes individual credit risk.

The institutional concept is based on the application of high technology with terminals at post offices connected by data communications networks to the processing centre of the postal bank. The technology, including cards, terminals and communications, can be seen as a basic modern information infrastructure that can also be utilized for other applications. In general, such applications vary from management information systems for the posts, track-and-tracing systems for mail items, telephone subscription services, e-mail and Internet services, and e-commerce. In terms of security, the postal bank accounting and treasury should be kept strictly separate from postal accounting and treasury.

Postal Financial Services Accounts: the Gateway





GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

Postal financial services are a unique, cost-effective, mass banking concept, relevant for industrialized as well as emerging markets.

From a commercial point of view, the bank involved (often named 'Postbank') has an interest in accessing the postal network as an alternative or additional channel for funding and payment transactions at a lower cost-per-unit than through its own branches.

The postal service's interest is to have an optimum utilization of its infrastructure and staff, and to create more cross-selling opportunities in order to maintain an economically viable and dense post office network. It also allows the post to set up and develop an e-commerce cycle, starting with consumers browsing at terminals at post offices, ordering goods over the Internet, settling the related payments through Web-based technology, and the post subsequently managing the transport and logistics process to deliver the goods in a timely manner.

In emerging markets, postal financial services appear indispensable for posts to sustain dense post office networks. For example, in Russia, China, India, and Poland, financial services constitute more than 33% of the overall postal revenues and, in some cases, more than 80% of the revenues earned at postal counters.

In industrialized economies, financial services are equally important to sustain post office networks. In France and Germany, the financial services contribute to about 25% of the overall postal revenues. In the Netherlands, the revenues gained by financial services account for approximately 65% of the revenues of post office counters.

The fear that postal banking may hamper the reputation or positioning of traditional banks versus their existing high-end clients can be eliminated by the fact that in the majority of the countries around the world, postal financial services are sold under a label of the posts or are very closely associated with the posts (e.g. 'Post', 'Postcheque', 'Postfinance', 'Postbank', and 'Postal Savings'). This allows the banks involved to repackage the products for the mass-market segment. It also means that the population will not immediately associate the services with one of the banks, but will assume solidity of the financial services based on the strong image of the postal service. Banks, however, face increased competition from an effectively implemented postal banking concept, and some of them will therefore resist the establishment of a modern postal financial concept.



**GUIDING PRINCIPLES
FOR POSTAL FINANCIAL SERVICES REFORM**

Post(bank) is different!

Direct Bank	Post(bank)	Branch Bank
Segmented	Mass scale	Segmented
High entry	Low entry	High entry
“Anonymous”	“Anonymous”	Personal selling
Broad range of standard products	Broad range of standard products	Broad range of specialist products
Transparent	Transparent	Commercial
Internet / telephone	Post office with multichannel	Own branches
24 hours / 7 days	Long opening hours / 6 days	Short opening hours / 5 days

Retail Marketing Concept

Convenience	Credibility
Easy access and low threshold Standardized products	Good, efficient service Decent (no fine print) Reliable (mail and IT)
Competitive pricing	Crystal clear products
Free (basic) payment package Value for money	Full basic range Transparent product range

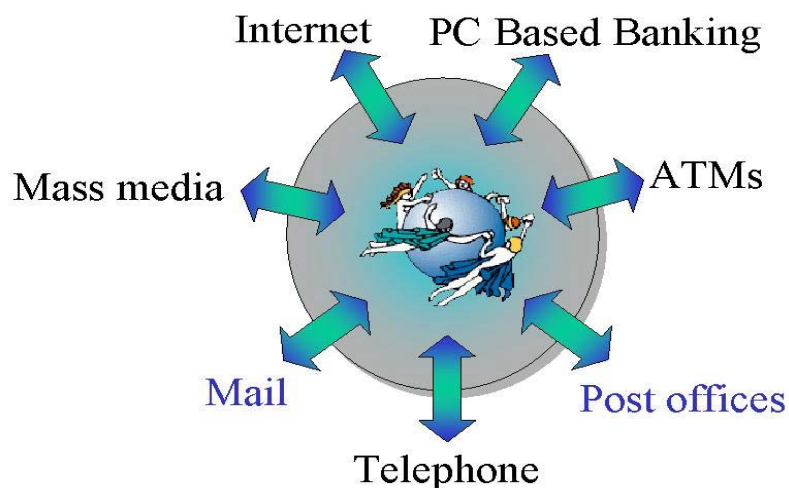
- **continuous communication pressure**
- **excellent service quality**
- **integrated customer approach**



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

The concept of postal financial services is based on ‘C’s’: Convenience, Credibility, Competitive pricing, and a Crystal clear approach. The Convenience is ensured by easy access to the services. The dense post office network and its open nature contribute substantially to the accessibility of the services. Credibility is especially important in countries with a solid financial sector. For the mass consumer, the details of the balance sheet will matter less, though remain essential, in creating customer confidence. The image of the post as a trusted institution can also contribute to its credibility. Its flawless operation should be supported by information technology and the possible additional channel of a punctual mail service for direct mail, delivery of statements, and pick-up of payment orders. The postal financial services may not need to attain price leadership but they need to employ a Competitive pricing policy, which gives the consumer an overall essential feeling of ‘value for money’. The competitive offer can also be achieved through a Crystal clear approach. The strengths of the postal financial services are enhanced by features such as no fine print, no hidden tricks, and prices and conditions which are fair, self-explanatory and easy to compare.

Multichannel Distribution



As mentioned before, a critical component for the successful implementation of modern postal financial services is the multichannel concept. In this concept, the post offices do not become bank branches. They remain communications and service centres, accessible to the public at large. Through the utilization of other channels, as appropriate and available for each individual country, the concept can be supported. The multichannel concept offers a cost-efficient and convenient solution to deal with more complex or personal questions that can be handled by specifically trained officers in financial customer services. Call centres and Internet, which both could be made accessible from post offices, are channels likely to gain further importance in the next few years. However, the main visible and tangible channel remains the post office counter.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

Post Office counters



Computerised Universal Counters

Role:

- **Sales**
- **Opening of accounts**
- **Advice/ promotion**
- **Transactions**
- **Information**

A modern concept of postal financial services presents an interesting, profitable business case. The impact and benefits are broad. The system of postal financial services can aid in the development of a modern consumer information and distribution infrastructure by:

- Developing a commercially viable and economically sustainable post office network which provides open and affordable access to basic financial services, information, communication and other consumer services;
- Providing all sections of the population, including senior citizens, the poor, and those living in remote and rural areas, with access to the formal financial sector;
- Linking the population (including those mentioned above) into the global economy and international financial systems;



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

- Enriching the level of employment in the post office network by broadening and modernizing the range of services;
- Mobilizing the national financial resources into a productive economy by pooling the resources in a competitive and efficient way;
- Contributing to the reduction of cash in circulation which thus promotes efficiency and transparency in the national payment system. It can also promote the transformation of the cash component in the primary monetary mass (M1) into cashless money held in transfer accounts;
- In 'transition' economies, accelerating the de-monopolization process of the state savings bank and state insurance company. At present, the monopolies often form a barrier for the transition to an open market economy with consumer financial services.

The prevailing policy view held by IMF, World Bank, ECB, UPU and others is to develop a stable financial sector with strong, efficient, financial institutions, to provide a broad range of services which utilize new technologies, and which are accessible through dense retail outlet networks.

Post offices can play a valuable role in financial sector development as an easily accessible service. To ensure a healthy and sound development of the financial sector, it is essential that the financial services are transparently structured and managed.

To create an efficient market with a level playing field, the role of state-owned posts already operating financial services has come under increasing scrutiny by central banks and multilateral organizations.

Any limited postal financial service would not provide the nation with the benefits that the implementation of modern postal financial services could bring to the financial sector, to the population, including rural communities, the poor, and senior citizens, and also to the posts.

A new role for governments can therefore be envisaged: namely, to promote the implementation of modern postal services through postal-owned financial service structures or through partnerships between the posts and competent financial institutions. In this way, a balance can be found between public interest and the business interests of the posts and financial institutions.

The practice around the world indicates that there is not a standard recipe to find the balance between public and private sector interest. Local conditions are crucial. There is a diversity of models to create a kind of 'public-private sector partnership' between the posts and financial institutions (including postal financial institutions), and there are also different roadmaps for the evolution of this model.

The experience of countries that have implemented reform of the postal financial services shows clearly that there are benefits for each of the stakeholders (consumers, governments, postal services, financial sectors). The quest for synergy appears to be the binding factor for success in the reform of the postal financial services.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

4 Origin and History of Postal Financial Services

The origin of the concept to use the post offices for the provision of basic financial services dates from the second half of the 19th Century. In that era, governments of Austria, the United Kingdom, France and other countries established post office savings banks and subsequently ‘postcheque’ and ‘postgiro’ services. The postal money order had already become an important service to transmit money nationally and/or internationally. In those days, commercial and merchant banks typically maintained small branch networks scattered throughout the country, mainly directed at companies and wealthy, educated individuals. Also, savings banks and co-operative banks had been established but they often operated on a regional scale only. Bankruptcies occurred frequently and caused losses of small savers’ deposits. As a result, many people, being unable to judge the banks’ viability, had no alternative but to keep their savings privately, without security against theft or loss and without the possibility of earning interest.



Postal Money Orders were the first financial product offered through the post offices; this picture shows an old Egyptian postal order. Egypt’s National Post Organization still operates money orders as well as postal cheque and giro services. Moreover, a Postal Savings Bank keeps more than 8 million postal savings accounts. The interest margin income from the postal savings keeps the Egypt Post recording profits. Plans to modernize and computerize the postal financial services and post offices are under development.

Governments intervened by providing financial services through the post offices. The post offices were the only public network accessible to all and in close proximity to the entire population. They already provided a wide range of postal and public services. By making use of the dense existing infrastructure, the introduction of savings and payments services was not expected to cause significant additional costs for the operation. It was also envisaged that the existing infrastructure and staffing would be better utilized.

In 1886, Finland established its Post Office Savings Bank. It started with issuing postal savings pass books through all post offices. The Postal Savings Bank was in the late 1970s among the first in the world to be transformed in Postipankki Oy (Postbank Ltd.) which was privatized in the late 1998 and subsequently terminated in 2001 its partnership with the Post Offices – this in view of the high degree of internet banking and tele-banking services in homes or in offices.



Post office savings banks were typically established as central entities which administrated savings accounts, calculated interest, etc. The post offices became nationwide networks which provided



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

standardized savings and deposit services to the main public. The deposits were 100% guaranteed by the state, and the money was re-invested by the Treasury, or a special fund established by the Treasury, which was often the post office savings bank, itself.

In this way, the small savings were pooled by the government and could be used to finance projects for economic and infrastructure development. In addition to the deposit services, governments of some countries also introduced postal life insurance for similar reasons. In the concept of a post office savings bank, the posts were responsible for the liability-based operations, accounting, staffing and technology. The asset-based operations, such as the investment of the deposits, remained the responsibility of the Ministry of Finance, the Treasury or a delegated fund. In many cases, however, the task of day-to-day asset management was handled by the staff at the post office savings banks.



In 1883 the Austrian Post Office Savings Bank (PSK) was established in Vienna. It was the first institution to also provide postal giro services.

In the 18th and 19th centuries, municipal or regional administrations in Continental Europe established the so-called “Giro” service to facilitate the collection, transfer, and distribution of money (e.g. taxes)

Originally, government motives to establish postal savings and giro institutions were:

- **To provide secure and solid deposit and money transfer instruments, easily accessible to the public, government agencies and companies;**
- **To mobilize and pool national financial resources and utilize the resources for economic development.**

between the local administration and its citizens and enterprises. The handicap was that the payment service had no nation-wide coverage. These initiatives were followed by government agencies and large institutions who identified an interest in increasing the use of the post offices for payments services, such as the collection of taxes, fees, utility bills, and later, for insurance premiums and the disbursement of salaries and pensions.

This led to the establishment of postcheque or postgiro services. Such services made it possible for the posts to offer postal giro or postal cheque accounts to enterprises and individual persons. In most cases, the operations of the postgiro and postcheque services were assigned to the posts. The deposit balances were re-invested by the Treasury,



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

either directly, or through the post office savings bank or another delegated fund.

Initially, central banks were not involved in the supervision of the postal financial services.

The concept of postal savings and postal cheque and giro services found its origin in Europe. The British, Dutch, French, Portuguese and Spanish 'exported' the concept to many other parts of the world, including their products and legislation.

As a result, in the first half of the 20th Century, the postal savings and postal cheque and giro payments services took prominent places in their respective financial sectors. Postal savings provided a strong contribution to the promotion of the habit of savings, for example, by promoting savings accounts for children and schools. Postal cheque and giro services and postal money orders filled a gap in the payments system which then only featured cash and cheques, which were relatively complex, expensive, risky, and only available to companies and to a very small, privileged group of wealthy citizens.



Typical operational features of 19th / early 20th century postal financial services

- Established by a specific law
- In many countries, owned by Ministry of Finance or specific fund and operated and managed by posts
- Not supervised by Central Bank
- Bypassing capital and money markets
- Resources invested in State Treasury/ gilt-edged titles; no 'risk'

Cash delivery at home of money orders, pensions have often filled postal bags



Typical product features of 19th / early 20th century postal financial services

- State guarantee on deposits
- Tax exempt
- Low minimum deposit requirement
- Available at all post offices
- Limited fragmented product approach
- Paper-based

Postal financial services became associated with a culture of too many stamps and forms

The first signs of decline of the 19th Century concept of postal financial services started in the 1930s.

As a result of the global economic depression in the 1930s, some of the weakly established postal savings schemes collapsed. Latin America suffered particularly, as government financing became difficult.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

Moreover, the 1933 Glass-Steagall Act meant that in the U.S.A., the post offices were prohibited to render financial services. Subsequently, in 1935 the U.S. Treasury terminated the issuance of postal savings bonds. This doctrine was adopted by many of the governments in North and South America, as well as in some of the Asia-Pacific nations. Postal financial services remained confined to the very limited scope of postal money orders and cash payments.



The practice of Postal Savings Stamps had been introduced by the Imperial Savings Bank of Russia at the end of the 19th century. It was continued in the first years of the Soviet Union till 1929.

The development of postal financial services declined after the Second World War. In Central and Eastern Europe and in some countries in Africa and Asia, the 'mono bank' system was introduced, and the existing postal savings banks and postal cheque services were liquidated or amalgamated into a state savings bank, being the 'retail' arm of the state (central) bank. The position of the post offices was diminished to being that of an 'extended arm', functioning as cash agent of the mono banking system. It had to deliver cash for state pensions and social security, collect cash for utility bills and accept deposits to savings pass book accounts of the state savings banks.

In the post-war period, the process of de-colonization started in Africa and Asia. Initially, postal savings banks and postal giro services continued to operate on the basis of inherited legislation and procedures, which did not always adapt to the specific local developments. Similarly, in some European countries, the postal financial services did not adjust to the changing environment of the financial sector.



A glimpse into the computer centre of the Serbian and Montenegrine Postal Savings Bank.

Until the 1960s, many banks tended to be specialized institutions focusing on a certain sector of trade or industry and/or a region, often operating through a small branch network. Often, several of the specialized banks were state-owned. Through a process of mergers and acquisitions, larger and larger banking groups eventually emerged, profiling themselves as 'universal' banks. Their interest in retail banking appealed to broad groups of individuals, and the deposits in savings accounts and balances on payments accounts were seen as relatively low-cost funding for the commercial credit operations. Moreover, technology evolved in the 1960s.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

Computers were introduced to support the accounting and operations of the banks. In the 1970s, the first steps in ‘electronic banking’ were made, and magnetic stripe cards were issued to clients with which they could retrieve cash at Automatic Teller Machines (ATM). The financial sector rapidly developed, increasing the use of technology and resulting in today’s use of Internet for bill payments, investments in securities and on-line banking.

At the same time, the segregation within the financial sector between banking, insurance, securities, savings, mortgage lending, etc., started to fade away in a large number of countries. This has resulted in the creation of universal financial services groups, operating on a global scale.

Postbank Money Transfer

Money Transfer

EUR
 USD 450

Send to

Postbank Account
 Bank Account
 Postal Money Order

Message: Invoice 765/
87655 of January 2002
for Rent of Apartment

Send confirmation of transfer

by e-mail

Include sender's address

OK
Cancel
Browse...
Advanced...

Web screens and e-mail increasingly replace paper-based operations, including forms and stamps.

IMF, BIS, EU, development banks and the respective central banks took an active role in promoting the development of an efficient, stable financial sector. Key concepts in financial sector development include the creation of strong, stable financial institutions, supervision, and deposit insurance. Issues of concern in financial sector stability are the large number of small depositors, and the widespread availability of instruments to settle small-value payments efficiently.

Many posts and their post office savings bank or postal cheque and giro services have not yet been, or have only recently become, part of this process of change. Subsequently, postal financial services in some countries have not only become associated with a dusty, out-dated image, but in some cases, they have become outright failures.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

Typical symptoms of failure of postal financial services

- Poor service quality
- Loss of market share, less than 3% of domestic savings
- Increasing number of dormant accounts
- High costs, inefficiency
- Losses in asset management
- Internal clashes between post and POSB

Typical causes and reasons for failure of postal financial services

- Lack of response to customer needs due to legal and institutional frameworks
- Lack of business orientation, unstable managerial or political environments
- Inadequate investments in product and IT development
- Lack of credible partners
- Conflicting missions (post-bank)

The development of an increasingly globalized financial system, has made the specific legislation for postal financial services in many cases outdated and inadequate. The legislation typically defines the management structure, operations and even the details of the product conditions. In the days when postal financial services legislation was designed, there was no such notion of ‘product life cycle’. The postal financial services were envisaged as a kind of public utility service. However, they are now part of the financial service market, and the products in their original condition have very often reached a stage of saturation and the very end of the product life cycle. A number of modern alternatives exist.

An assessment of the original postal financial services products shows that in only a few cases is there a strategy option to extend the existing services. This option implies the usage of modern technology and business process redesign. In other cases, the product life cycle has reached its terminal stage and the introduction of substitute services and products is required. In most cases, this points to the introduction of card and account-based services, in which electronic data carriers play a dominant role.



**GUIDING PRINCIPLES
FOR POSTAL FINANCIAL SERVICES REFORM**

Products offered by postal financial services

	Main Features	Extension	Substitutes	Competitors
Postal Money Order (within country)	paper-based P2P payment: through the mail, slow, cost-inefficient, complaint-sensitive	electronic (web-based) money orders	payment account and transfers	banks and other financial intermediaries offering money transfer services
International Postal Money Order	paper-based P2P payment: through the mail, slow, cost-inefficient	electronic (web-based) money orders	payment account and cross-border transfers	Western Union, Moneygram, Travelex, Paypal, etc.
Postal Savings Pass Book	paper-based savings instruments	pass book plus card	savings account (with statements or through Internet)	banks' savings accounts, mutual funds, life insurance policies
Postal Savings/ Deposit Certificate	paper-based savings instruments	paper-based with bar-codes	savings account (with statements or through Internet)	banks, brokers and insurance companies offering savings accounts, mutual funds, life insurance policies
Postal COD payment	paper-based cash collection instrument	electronic bill presentment and payment (EBPP)	payment account with pre-authorised payment, direct debit, or pre-printed collection form	banks and other operators offering collection services
Postal cheque	paper-based payment instrument	EBPP	payment account and card	banks and partners offering payment cards
Cash distribution of pensions and social security	paper-based, cash-based payment instruments	electronic cash payment instructions	payment account and card	banks offering payment cards
Cash collection of utility bills, rent, etc.	paper-based, cash-based payment instruments	EBPP	payment account and card	banks offering payment accounts and cards



**GUIDING PRINCIPLES
FOR POSTAL FINANCIAL SERVICES REFORM**

Original legislation for postal financial services has often developed into a straightjacket which prohibits effective modernization and distorts market mechanisms.

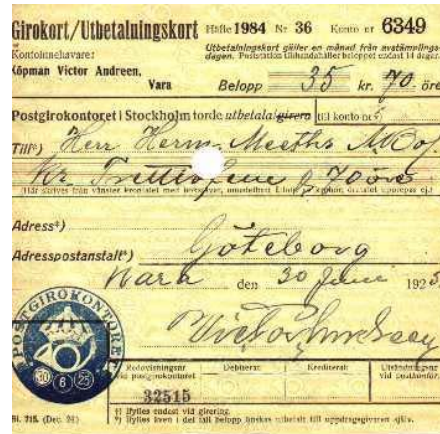
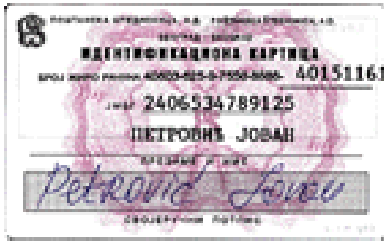
Under the old legal frameworks, the postal financial services faced the following bottlenecks and risks:

- **Inability to develop a flexible competitive offer**
Pricing and interest rates are often tied to official, lengthy procedures, whereas competitors (banks) can change their interest rates and tariffs by a simple Board of Management decision.
- **Inability to expand the product range**
Consumers and companies often prefer ‘one-stop’ shopping. While the introduction of new products requires lengthy and complex legislative steps, private financial institutions can introduce new services with a simple Board of Management decision.
- **Inability to participate in inter-bank clearing schemes** results in inefficiencies or additional costs to provide financial services.
- **Risks of unclear cost compensation arrangements** between the post office (counter) network and the postal financial services entity:
A PMG or CEO of the Posts is not in a position to form an unbiased judgement between the interests of the Post Office and Postal Financial Services entity.
- **Inability to hire competent financial sector management and experts** because the remuneration is tied to public service scales and ranks.
- **Risk of cross-subsidies with the operations of the post offices (counters and mail):**
Establishment of a transparent, separate and accountable entity avoids these risks and promotes the search for synergy (e.g. through cross-selling of services).
- **Risk of internal lending**
Many posts that operate financial services find it difficult to resist the temptation of forcing the postal savings bank to lend cheap money at self-determined, ‘preferential’, below-market interest rates to cover up temporary postal exploitation deficits. This is an abuse of the small savers' money and can lead to a misrepresentation of the post's real financial situation.
- **Risk of a substantial imbalance in the balance sheet**
While most of the liabilities (clients' deposits) are short-term with variable interest rates, the assets are typically tied up in long-term fixed rate government bonds or projects. The risk of negative interest margin income and liquidity shortage may appear in turbulent and adverse economic situations.
- **Risk of inadequate technology choices** because requirements to operate both financial services and mail services efficiently have not been adequately met.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

Many of these risks and obstacles point to the need for institutional and legal reform. As stated in the Introduction, this also points towards building some kind of partnership between the posts and financial institutions, which are licensed and capable to operate modern account-based financial services.



Both Swedish Postgiro and Serbian and Montenegrine Postal Savings Bank have started their giro payments services with paper-based instruments. Today, plastic cards and electronic messages are the main type of carrier for transactions.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

5 International Scenario

An increasing number of countries are in the process of, or are considering, the implementation of ‘best practices’, fine-tuned to their local conditions.

The emerging worldwide situation shows significant differences in approaches to improve and reform the posts, and the overall conclusion is that there is not one single, optimal solution.

On a regional geographic basis, the following situations are evident:

5.1 Western Europe

Postal financial services were originated decades ago in the Western European countries. On average, post offices form 30% of the total physical points of entry into the financial system. Post offices and postal financial services operators process more than 20% of the cashless payments in the European Union. More than 15% of the household deposits are mobilized through the post offices. The ECB and the national central banks generally hold the view that post offices are indeed points of entry into the financial system and that post offices can be involved in the delivery of financial services managed by a licensed institution. In most cases of the classification, there is no difference between a ‘postbank’ and a commercial bank.

Very often, the postal financial services have evolved from an entity or department within the posts (or PTT) to a corporate entity with a banking license. A great number of these banks have become partially, or wholly, privately owned through mergers with other financial institutions.

Frequently in these cases, the financial services are managed by a licensed banking institution (often named ‘Postbank’) on the basis of a long-term partnership with the posts. The exact type of partnership and the scope of services differ on a country-by-country basis. In many countries, financial payment services continue to be offered by the post.



Postomats, Giromats and Postbank ATMs provide 24 hour convenient access to cash. Often they are located in the proximity of a post office.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

In Finland and Spain, the original postal financial service entities have been merged into larger financial groups which have terminated operations with the posts. The respective posts undertook attempts to build new partnerships with other large financial groups.

In Germany the Postbank, a fully licensed bank, is a subsidiary company of the Deutsche Post.

In France and Italy, the postal financial services are still a division within the posts, featuring some limitations in the scope of their services. The restructuring of these divisions into licensed banking entities is expected to happen over the next years.

In most cases, the post offices function as a part of a multichannel distribution concept. Internet and cellular phones are the latest additions to this concept and their impact on the role of the post offices will become clearer over the next years.

European postal financial services are developing towards a full range of services, managed and operated in partnership with a financial institution, which is licensed by the financial sector regulatory authority of the central bank.

Reform and commercialization of the postal financial services started in the 1970s in the Netherlands and Finland. Reform is still an important issue in many of the EU and other European countries.

Some of the reform processes recently concluded or on-going are highlighted below:



Austria: Privatization of the Post Office Savings Bank through a merger with BAWAG Bank was effected in 2001. Austrian Post also has a partnership with 'Postversicherungen AG' to sell insurance products.



Belgium: The 50% postal stake in the Postbank joint-venture between the Belgian Post (Postcheque) and the Fortis Group was sold in 2001 to Fortis, which subsequently became 100% owner of the Belgian Postbank operation. The Belgian Post Group motivated its decision on the fact that account-based financial services are not their core business and that through a partnership of this form, the financial services could be more effectively structured and developed.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM



Denmark: In 2001, the Bikuben Giro Bank was merged into Danske Bank, the country's largest financial institution. The cooperation agreement with Danish Post continues.



France: Plans were unveiled in the summer of 2001 to restructure the financial services into a bank, being either an alliance with several other financial institutions or a separate postal banking institution. After extensive consideration, the creation of a Postbank is expected to take place in 2005.



Germany: The flotation of Deutsche Post World Net provided its subsidiary Deutsche Postbank with the opportunity to rapidly expand its strong position in the German retail banking. In addition to this there is also on-line brokerage for securities, as well as in corporate finance such as leasing and international trade finance. In September 2003, Deutsche Post announced that it prepares the flotation of shares of Deutsche Postbank on the German Stock Exchanges. The intention is to sell up to 49% for the shares to private investors.



Greece: The Greek government considered options to restructure and privatize its postal services and post office savings bank. As a first step, it resolved to integrate the networks of the post offices and the postal savings branches and to seek a cost-efficient modernization and expansion of the range of financial services.



Ireland: At the end of 2001, the Allied Irish Bank announced a partnership with An Post to utilize 1,000 post offices for the extension of financial services, particularly in rural areas.

Posteitaliane

BancoPosta



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

Italy: Poste Italiane launched a programme to modernize its post offices as well as to expand its strong market position in the Italian retail banking market by introducing new investment products through a partnership with Merrill Lynch. In the context of further reform of Poste Italiane, the incorporation of BancoPosta has been considered.



Post office re-styling in Italy

Luxembourg: In 2001 the legal statute of Postchèque Luxembourg was changed by law in order to give it more commercial freedom. The offer is still limited to payment accounts and credit cards, but P&T Luxembourg intends to enlarge the range of financial services in partnership with local financial service providers during the next years.

Portugal: CTT- Correios de Portugal, S.A. recently sold its participation in the postal bank. The postal bank was a partnership between CTT, Correios de Portugal, S.A. and the country's largest financial institution, Caixa Geral de Depositos. Presently, CTT- Correios de Portugal, S.A. is in a process of internal restructuring. CTT continues to offer its traditional postal financial services and products through its business unit Serviços Financeiros Postals and CTT's network.



Spain: The Deutsche Bank (Spain) became the financial services partner of Correos y Telégrafos. In 2001, it reported that in the first year of operations (2000), USD 3.9 million fees were paid to Correos and more than 70,000 account holders/clients were attracted.



Sweden: The Swedish PostgiroBank AB was sold in 2001 to the financial services group Nordea, offering clients a broad range of financial services.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

Switzerland: Partnerships with UBS and Winterthur have been established over the past 2 years leading to the introduction of credit cards, insurance and mutual funds. In 2001, the Swiss Post decided to extend its range of financial services into commercial credit.

Turkey: In Turkey, the post offices operate approximately 25% of the national payments system. Their reform approach is to create a postbank as a joint-venture between the postal (giro) payments division and a local bank, with the idea to access the dense post office network for sales of its financial services. In September 2003, the Turkish PTT concluded a Postbank joint-venture agreement with Citibank to provide a broader ranager of financial services at post offices.



United Kingdom: Plans were launched to establish universal banking services, a post office bank operation which offers account-based payments and savings services to the yet unbanked communities in the United Kingdom. It will also help the post offices to stay involved in financial services even when all social security payments will flow through bank accounts. It involves Post Office card accounts – a very simple bank account with linkages to most high street financial institutions to allow access to their basic bank accounts. Also in September 2003 the Royal Mail announced to enter into a joint-venture with a commercial bank to offer a full package of financial services at post offices.



In Western European countries, Postbanks rank among the largest mail clients for sending statements and for receiving orders and direct mail.



**GUIDING PRINCIPLES
FOR POSTAL FINANCIAL SERVICES REFORM**

In summary, one can conclude that the specific legal frameworks that were introduced at the end of the 19th century or the beginning of the 20th century to promote postal financial services (savings, giro) have in most cases been replaced by commercial law partnerships, which allow a more flexible response to dynamics of the consumers' demands within a competitive environment. France, Greece, Italy and Switzerland are in the process of reforming the postal financial services legal framework towards such a situation.

Postal Financial Services in Western Europe

Countries	PFS Division	PFS Subsidiary	PFS Partner	Payment Account s/Cards	Savings	Consumer Credit	Mutual Funds	Insurance	Internet
Austria			•	•	•	•	•	•	•
Belgium			•	•	•	•	•	•	•
Denmark			•	•	•				
Finland			•					•	•
France	•			•	•	•	•	•	•
Germany		•		•	•	•	•	•	•
Greece	•		•	•	•				
Iceland	•			•					
Ireland	•		•	•	•	•	•	•	•
Italy	•		•	•	•	•	•		•
Luxembourg	•			•					•
Netherlands			•	•	•	•	•	•	•
Norway			•	•	•	•	•	•	•
Portugal	•		•	•	•	•	•	•	•
Spain			•	•	•		•	•	
Sweden			•	•					•
Switzerland	•		•	•			•	•	•
United Kingdom			•	•	•		•		



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM



5.2 Central and

Until 1940, some of the Central European countries had a tradition of offering postal savings and postal giro products. Only in Yugoslavia was the tradition continued after the Second World War, and even today in Serbia and Montenegro the Postal Savings Bank remains the leading savings and payments institution in the country.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

After 1989, postbanks operating as fully licensed, incorporated entities were established across the region, often with the posts participating as shareholders and long-term partners. In Central and Eastern Europe (CEE), postal financial services had the opportunity to leap forward in comparison to the evolution of their Western European brethren. There was no legislative legacy hindering a commercial approach to the service and could benefit from the experience of postal financial services in the areas of product development, marketing and operations. CEE postbanks started with very little capital, but the strength of the postal network of the postbanks quickly gained a leading position in the retail market. However, the market had been monopolized by the state savings banks.

Many postbanks have focused on retail services, but they have not yet formed fully synergistic partnerships with other financial institutions, and their operations which continue to be largely cash-based.

Moreover, some of the postbanks have expanded into commercial credit activities, which eventually resulted in the implementation of inadequate financial services. Other postbanks underwent restructuring without assuring a mutually strong partnership between the postal and financial sectors.



Post Giro office in Riga, Latvia

In many cases, postbanks or similar institutions have been established, but they have not yet reached the scale of operations, which make them significant for the postal or for the national financial sector.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

Truly effective partnerships with the posts have not yet materialized as a lack of:

- a legal framework facilitating efficient participation of the post offices in the postbank services;
- competitive conditions equal to those offered by the state savings bank;
- availability of capital, technology and management to implement the modern postal financial services concept;
- priority from government and international institutions to promote the concept as part of a transition strategy to strengthen the financial sector and to develop the postal and communications infrastructure.

In the European transition economies, development and reform of the postal financial services is still an important issue.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

Some highlights:

Albania: AlbaPost has successfully introduced basic postal financial services. Under the current legal framework, the range of services is restricted to cash payments only. In the context of the reform of the financial sector and the de-monopolization of the Savings Bank of Albania, the creation of an 'Postbank' has come under consideration. The Postbank would be essential to facilitate the process of privatization of the savings bank and the creation of competitive capital and money markets.



Bosnia: In 2001, the Austrian Raiffeisen Central Bank acquired the Postbank in Mostar, one of the three post-banking institutions in the country.

Croatia: In 1991 the Croatian Post, Inc. founded the Croatian Post Bank, Inc. Gradually, in the course of time, the owner's share of the Croatian Post, Inc. was decreasing until it reached today's 33%. The Croatian Post, Inc. and the Croatian Post Bank, Inc. are two separate business entities. In all its post offices, the Croatian Post, Inc. carries out cash financial services for clients on behalf of the Croatian Post Bank, Inc. Based on the agreement, the Croatian Post, Inc. also performs other banking services (payments and withdrawals per citizens' current accounts, savings accounts, etc.).



Czech Republic: The Czech postal savings bank 'Postovní spořitelna' is one of the commercial divisions of Československa obchodni banka (CSOB) and of the Czech Post 'Ceska posta' (Czech Post, State Enterprise). In June 2000 CSOB took over the assets and liabilities of the former Investicni a postovni banka (IPB). This merger created the strongest bank, not only in the Czech Republic, but in the whole Central and Eastern Europe region. After a successful privatization, the Belgian KBC Bank became the largest shareholder. CSOB – Postovní spořitelna uses the network of the Czech Post to offer its banking services at approximately 3400 post offices throughout the country.

Estonia: The Estonian Post offers financial services using the postal network. In cooperation with the Estonian Union Bank and the Estonian Post, the postal bank 'Postipank' offers banking services performing daily banking operations and concluding banking services agreements in the post offices.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM



Hungary: The Hungarian Postabank was amongst the first postbanks established in Central and Eastern Europe. Its partnership with the post was not successful and commercial credit was extended on a risky basis. In 1998, Postabank collapsed and the government undertook a recovery programme. In 2000, advisers from Credit Suisse First Boston were hired to analyse the privatization or merger option for Postabank. The recommendation to merge the postbank with the State Savings Bank OTP met considerable resistance, and in Autumn 2001, it was resolved that Magyar Posta would become the major shareholder in Postbank, Magyar Posta has established a Post office (counter) Company. Financial services are the main source of revenues but this decision was reviewed and in 2002, the merger of the postbank with the State Savings Bank OTP was effected through sales to “Erste” the Austrian Savings Bank for 400 million Euro.



Latvia: The Postal Accounting Centre (PAC), a branch of the Latvia Post, was established on 1 May 1996. The Postal Accounting System (PAS) was developed to provide a modern system, where cash-based operations are substituted with transfer payments and settlements. PAS accounts are giro accounts and are available in any of 965 post offices around the country. The PAS assures the customers access to their accounts in any post office in Latvia. Due to the large number of post offices around the country, the PAC is well known for the distribution of pensions and social security payments, as well as for collecting payments for different public services, payments for public facilities, and international and domestic money transfers.





GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

Lithuania: Lithuania Post is a state-owned enterprise providing basic financial services as cashing, payment and funds' transfer services. Lithuania Post operates domestic and international payment services. There is no postbank established in Lithuania.



Poland: The Postal Bank S.A. gained its legal personality in May 1990. The state enterprise 'Poczta Polska Telegraf Telefon' was its founder. The Polish Post (Poczta Polska) and Prokom Investment S.A. have been its shareholders since 1999. The Giro personal account was the first product of the postal bank that was implemented in post offices. Since 2001, all post offices have additionally offered credits and deposits of the postal bank, as well as the possibility of depositing social insurance contributions and taxes via Giro personal accounts. In the coming years, the co-operation between the Polish Post and the Postal Bank S.A. is going to cover a wider range of all offered services. There is a plan to increase the capital of the Bank in 2003.

Romania: Financial services rendered by the Romanian Post Office are presently being developed and diversified. Customers are asking for a large range of options: accessibility, speed, simplicity and security. The Romanian Post Office offers cashing, payments and funds' transfers, both domestically and internationally. Additionally, BANCPOST, a Romanian commercial bank, offers payments and savings services as well as micro-credits through the Romanian Post Office network and it has a long-term, but not exclusive, contract with Posta Romana.

The headquarters of Romanian Post in Bucharest.



**GUIDING PRINCIPLES
FOR POSTAL FINANCIAL SERVICES REFORM**



Serbia and Montenegro: In 2001, the Postal Savings Bank, the country's largest retail bank, became a member of the Eurogiro network and launched initiatives to upgrade its services to European standards.



Slovak Republic: Poštová banka, a.s. (PostBank), is a retail bank with the largest number of sales points in the country. It operates through 24 branches and in 1 626 post offices. The strategic intention of the Slovak Postbank and the Slovak Post is to adapt to 600 000 clients' needs and to provide quality services at every outlet. The Slovak Republic has authorized the Postbank to serve as an office of exchange for the international postal money order services.

Postal Financial Services in Central & Eastern Europe

Countries	PFS Division	PFS Subsidiary	PFS Partner	Payment Accounts /Cards	Savings	Consumer Credit	Mutual Funds	Insurance	Internet
Albania	•								
Bosnia & Herzegovnia			•	•	•				
Bulgaria			•	•	•				
Croatia			•	•	•				
Czech Republic			•	•	•	•		•	
Estonia			•	•				•	
Hungary	•		•	•	•		•	•	•
Latviia	•			•					•
Lithuania	•			•				•	
Macedonia			•	•	•				•
Poland		•		•	•	•		•	
Romania	•		•	• *	•	• *	• *	• *	•
Slovakia			•	•	•	•	•		•
Slovenia			•	•	•				
Yugoslavia			•	•	•	•		•	

Note: * in cooperation



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

5.3 Commonwealth of Independent States

As a result of former USSR planning, each of the countries in the Commonwealth of Independent States (CIS) is endowed with an extensive state-owned post office network. The ratio varies per country between 1 outlet per 3,000 and 1 per 5,000 inhabitants. Post offices make up approximately 70% of the total points of entry in the national financial systems in CIS, and more than 50% of the cash in circulation flows monthly through the post office network. Similar to many European and Asian countries, the post offices are well positioned to play a significant role in the financial sector and infrastructure.



BelPochta, Minsk has entered into a cooperation agreement with a bank and considers options of building an effective Postbank partnership

Until several years ago, postal services were part of the same communications system as telecommunications, a field which is now separate.

In some countries, postal financial services reform could be undertaken by developing a modern retail-banking concept. This could be done in a partnership (e.g. joint-venture) between the postal operator and a financial institution.

Unlike (savings) bank branches, the post office network is omnipresent, even in outlying rural areas. The post office network provides an important role in the distribution and collection of money from the population. Post offices are currently involved in the disbursement of pensions and social security payments, salaries, collection of telephone and utility bills and postal money order services.

On a monthly basis, an average of more than 50% of the total cash in circulation in the country flows through the post office networks in CIS countries.

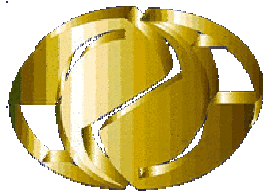
These financial services are the largest single revenue component of the postal service, varying from 30% to 80% in some countries. Other revenue components are mail (parcels, international mail, courier and local mail) as well as non-traditional services.



**GUIDING PRINCIPLES
FOR POSTAL FINANCIAL SERVICES REFORM**

A large part of the cash in circulation, as well as foreign currency, is kept privately. This is the result of an insufficiently-developed banking industry. A postal network has the potential to be an attractive, low-cost alternative to the banks.

In some countries, steps have been undertaken to establish a postbank or to develop the postal financial services. Postbanks are already in place in Azerbaijan, Georgia, Kazakhstan, Russia, the Ukraine and Uzbekistan, and developmental steps for establishing postbanks have been made in Armenia.



საქართველოს საფოსტო
ბანკი

Georgia: The Georgian Postbank was established in 1995 with special tasks in the field of pension payments and tax collection through the post offices. It is the 5th largest bank in the country.

Postal Financial Services in the Commonwealth of Independent States

Countries	PFS Division	PFS Subsidiary	PFS Partner	Cash payments	Payment Accounts /Cards	Savings	Consumer Credit	Mutual Funds	Insurance
Armenia	•			•					
Azerbaijan	•		•	•	•	•			
Belarus	•			•					
Georgia	•		•	•	•	•			
Kazakhstan	•		•	•	•	•			
Kyrgyzstan	•		•	•	•	•			
Moldova	•			•					
Russian Federation	•		•	•	•	•	•		
Tadjikistan	•			•					
Turkmenistan	•			•					
Ukraine	•		•	•	•	•			
Uzbekistan	•		•	•		•			



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM



Tashkent Post Office is one of the founders of the "Aloka Bank" with which it has a partnership for postal savings services at post offices

In reforming the postal financial services, the posts and postbanks meet the following major bottlenecks:

- low capitalization of the banking sector and difficulties in attracting foreign equity into a postbank operation;
- restrictive regulations for post office counters to act as an intermediary for a postbank;
- dominant position of the state savings bank, often supported by the government and/or central bank.

In all of the CIS countries, cash payment services are executed by the post. These services include the postal money order services, the distribution of pensions and social security and the collection of utility and apartment services.



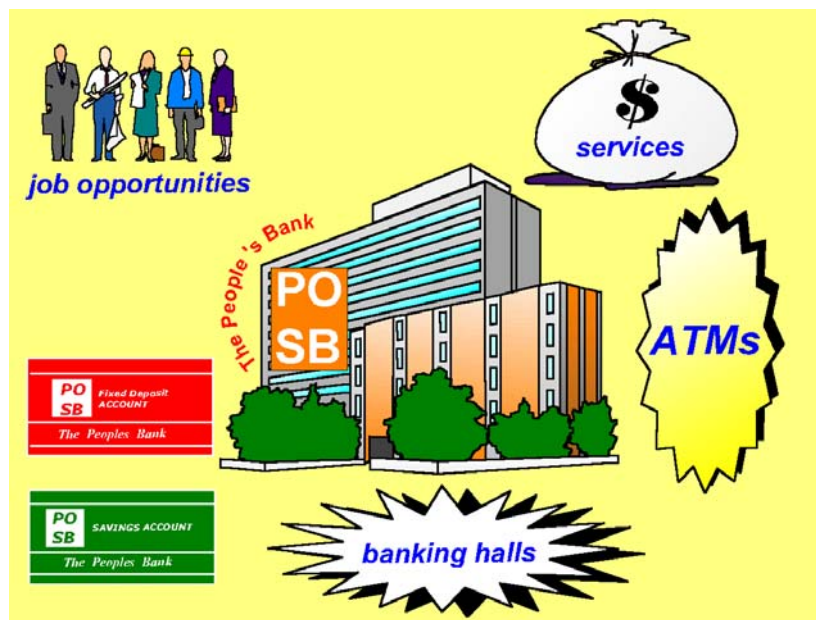
Russian post offices deal with large volumes of cash payments; in co-operation with "Svyazbank", modern card payments instruments are being introduced.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

5.4 Africa

Postal financial services in Africa play an important role in extending financial services to rural areas. They also help to promote the habit of savings. The relevance of postal financial services has grown in recent years due to the fact that many commercial banks have closed their branches in smaller cities and villages. In many cases, the post office is the only remaining point of entry into the formal financial sector, and the only link with the global economy. To fulfil this role, a major reform effort is needed in most of the African countries. A large number of the countries are actively pursuing reform, and modernization of the services and programmes is being undertaken across the continent.



The Post Office Savings Bank of Zimbabwe is a “people’s” bank with 25% of the population being clients. It attracts many small savers, and it is responsible for the distribution of salaries and pensions.

Post office savings banks and postcheque accounting services were established in Africa at the end of the 19th century or the beginning of the 20th century. They were established under specific legislation and in some cases this legislation is still applicable (e.g. Egypt, Uganda, Zimbabwe). In these cases, the Ministry of Finance is the ‘owner’ of the post office savings bank and sets the rules for the investments of the collected funds. The Ministry has an agency agreement with the Postmaster General, which is responsible for the operations, personnel, promotion and accounting. Adjustments in pricing (interest rates, commissions) require formal legislative procedures. In this institutional setting, the responsibility for marketing, especially product development, has not been clearly set. Moreover, the legal framework tends to require a formal legislative procedure to introduce new services. In some countries, this prohibits the commercialization of the product range. In the agency arrangement between the Ministry of Finance and the Post, all the details about cost compensation are not always mentioned.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

The asset management of the post office savings bank funds is only one of the many tasks of a Ministry of Finance. In some cases, the management of the post office savings bank responsibilities have been (de facto) transferred to the Ministry of Communications or the Postmaster-General. This has made the governing structure more practical, but the risk of inappropriate lending has also increased. As a result, in some countries, the small savers' money was not used for lending to economically productive projects. Instead, it was used to cover up deficits in the government sector or even the operational deficits of the posts while bypassing the money and capital markets. It also means that cross-subsidies are extended between two related entities.

In other countries, postbanks have been established as separate entities working with the post offices to render financial services. These postbanks apply a 'dual channel' policy (a concept which is also applied by numerous savings banks around the world), which uses its own branches for retail banking and also post offices. This does not warrant a true symbiosis between the postbank and the post offices. The 'dual channel' policy may result in internal competition in some countries, and thus create conflicting issues between the postbanks and the posts.

Attempts to reform the postal financial services are being undertaken by a large numbers of African countries, often with the support of multilateral agencies (World Bank, African Development Bank, and bilateral programmes supported by governments and savings banks).

These programmes have brought considerable know-how to the operators of the postal financial services involved. The emphasis has generally been on product development, technology, operations and training. This has helped to exploit the opportunities within the existing legal frameworks and has also made some management and stakeholders aware of the inadequacies of the existing legal frameworks.

Some highlights:

Uganda: The Ugandan Postal Giro and Money Order Service is part of Posta Uganda, which acts as an agency of the Post Bank in some areas of the country. In addition to facilitating money orders, Posta Uganda offers International Financial Services, through which money transfers with Kenya, Tanzania and Japan are currently available.

Postal Financial Services in Africa

Countries	PFS Division	PFS Subsidiary	PFS Partner	Cash payments	Payment Accounts/ Cards	Savings	Consumer Credit	Mutual Funds	Insurance
Egypt	●			●	●	●			
Tanzania	●		●	●					
Uganda	●		●	●	●	●			



**GUIDING PRINCIPLES
FOR POSTAL FINANCIAL SERVICES REFORM**

5.5 Asia, Pacific and the Middle East

Postal Financial Services in the Asia/Pacific and Middle East regions show a very broad diversity. The institutional models vary widely, as illustrated by some examples:

Model/Typology	Countries
Bureau or Division of the Ministry of Posts and Telecommunications, or State Post	China, Japan, Korea
Post Office Savings Bank, as an agency of the Ministry of Finance	India, Pakistan
Post Office Savings Bank, as an agency of the Ministry of Information and Communications Technology	Jordan
Agent of the National Savings Bank	Malaysia , Sri Lanka
Postbank, as a licensed bank and subsidiary/partner of the Post	Iran, New Zealand, Philippines
Postal money orders and other cash based services	Bangladesh, Lao People's Democratic Republic, Thailand
Sales of account-based financial products and transactions (processing/routing) as an agent for many banks	Australia

The diversity is found not only in the institutional models, but also in terms of product diversity, e.g. from cash-based money orders to an 'e-Postbank', providing a full range of financial services through the Internet.

Some highlights:

The region hosts the world's largest postal savings institution, namely, Japan Post. Japanese postal savings amount to more than the equivalent of USD 2 trillion in deposits.



China: In the People's Republic of China, postal savings were re-introduced in 1986. This has been successful. The savings and remittances have grown steadily. Postal savings make up more than 6% of the total household savings in China, and the revenues contribute substantially to China Post's



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

economic turnaround process. In view of the growing competition in the market, China Post also plans to introduce new services such as international payments and life insurance as steps towards a full package of financial services. The institutional constellation of postal financial services is under review in order to facilitate its further expansion.

Hong Kong Post, China, has been since 2001 a partner in a web-based technological platform with 5 local banks which issue smart cards to their clients.

India: The Indian postal network represents India's largest and most widespread public infrastructure with 154,000 post offices all over the country. Through the Post Office Savings Bank, India Post handles more than 110 million money orders per year and administers over 114 million savings accounts. India Post is a government department. All revenues go directly to the Ministry of Finance, and all savings account balances are transferred to the state bank. At present India Post is seeking to transforming their postal infrastructure to deliver modern information and financial services. The Post Office Savings Bank (POSB) is the country's oldest financial institution. It also has the largest customer base and contributes very significantly to the revenues of the Post.

Iran: Iran Post is presently going through an extensive modernization process, touching on both traditional mail and postal financial services. . The Iran Post Co. undertakes the reform with the Postbank Company of Iran. The bank was established in 1996 as a state run company and independent legal entity providing several payment services, money orders, savings services and consumer loans. The bank is seeking cost-effective modernization and expansion of its range of financial services and products preparing the implementation of an integrated modernization plan.

Japan: Japan Post was inaugurated on 1 April 2003 as a state-run operation. Japan Post provides a range of services vital for everyday life: mail, postal savings services and postal life insurance. These services are offered at about 24,700 post offices located nation-wide. In conjunction with the transformation, private corporate management practices will be introduced so that Japan Post can promote greater efficiency and better services through autonomous and flexible management.

Lebanon: In Lebanon, the Post was privatized in 1997. Initially, SNC Lavallin, a Canadian investment and engineering group with experts from the Canadian Post, operated it. In 2001, the concession was sold to LibanInvest, an investment company owned by Banque Audi, which has now resolved to diversify its services and to utilize the post offices for delivery of financial services.



New Zealand: The Post Office Savings Bank operated as a division of the New Zealand Post Office until 1987. It was then operated as a stand alone state owned enterprise until it was sold to ANZ Banking Group in 1994. In 2002, a new bank – Kiwibank – a wholly owned subsidiary of New Zealand Post started operating through New Zealand Post's branch network. It was established with NZD 80 million equity and is expected to contribute to the sustainability of the post shop network.

Pakistan: The Pakistan Post Office performs savings bank business as an agent of the Ministry of Finance to encourage the habit of savings among the people. About 8000 post offices have savings



**GUIDING PRINCIPLES
FOR POSTAL FINANCIAL SERVICES REFORM**

bank counters with 3.5 million account holders. Thus, the Post Office Savings Bank is the largest bank in the country. It contributes significantly towards postal revenue as an amount of 1000 million is earned by the Post Office on this account as commission. In addition to the Savings Bank, the Post Office features other financial services such as the Postal Draft Service for money transfers, Mobile Accounts, Giro Accounts and Postal Life Insurance. The Post Office Savings Bank (POSB) is the country's oldest financial institution. It also has the largest customer base and contributes very significantly to the revenues of the Post.

Singapore: SingPost provides traditional money order/postal order services directly. In addition, SingPost cooperates with selected financial institutions to offer a wider range of remittance services such as sale of bank drafts and urgent money transfer services. SingPost is also partnering an insurance company to sell insurance products.

South Korea offers a range of modern payments, savings, and life insurance through an agency of the Ministry of Post and Telecommunications. About 10% of the domestic cashless payments services are processed through the South-Korea Post and its financial services. In addition to the existing services, an e-postbank has been launched on the Internet. Reform is expected to take place in the context of overall financial sector reform.

Sri Lanka: In 1972, the POSB of Sri Lanka held nearly a 50% market share of the savings in the country. Since its amalgamation with the national savings bank, its market share has dwindled on a year-by-year basis. Nowadays, postal savings amount to less than 3% of the savings market. In 1997, the Sri Lanka Post, its Ministry and the World Bank launched initiatives to revive the postal financial services through a partnership with a private-sector financial institution.

Postal Financial Services in Asia, Pacific and the Middle East

Countries	PFS Division	PFS Subsidiary	PFS Partner	Cash payments	Payment Accounts/ Cards	Savings	Consumer Credit	Mutual Funds	Insurance	Internet
Japan	•		•	•	•	•			•	•
New Zealand		•			•	•	•		•	•
Pakistan	•			•	•	•			•	
Philippines			•		•		•			•
Singapore	•		•		•				•	



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

5.6 America: North America, Latin America and the Caribbean

In the Latin American region, postal financial services have lost their significance since the 1930s. In some countries, a postal savings bank continued to exist much longer (Brazil until 1972, Argentina until 1997). In practice, the posts were limited to national postal money orders ('giro postales').

Many of the Latin and Central American countries are involved in a process of reform to adjust to the new market realities. The issue of postal financial services seems to be gaining interest. The reasons might be found in the concurrence of the following factors:

- Reduction of bank branch networks leads to an increased need for access to dense networks to serve the population in smaller cities, villages and rural areas; post offices are seen as an option to extend the financial sector (infrastructure) to outlying areas.
- Steep growth of the direct mail market (and related sales) and Internet/e-commerce creates the need for cost-efficient substitutes for postal cash-on-delivery (COD) instruments.
- Growing migration across the continent leads to stronger need for fast, reliable international money transfer through easily accessible networks.

Argentina: the Correo Argentina (the privatized public postal operator) is co-owned (11%) by Banco de Galicia y Buenos Aires which added new financial services (cards, credit, investment products) in 400 larger post offices. After the economic crisis in 2002, and the financial difficulties of both the bank and private postal company, a new approach is expected to be developed.

Brazil: A Banco Postal programme was started in 1998, and implementation of basic payments and savings services was achieved through a partnership between the ECT (the Brazilian Postal Co.) and 'Bradesco', a large Latin American banking group.

Uruguay: In April 2000, the Administración Nacional de Correos started operating the Correobanc network through which collection and payment services, as well as money transfers and money orders, are provided to public and private enterprises and to individuals.

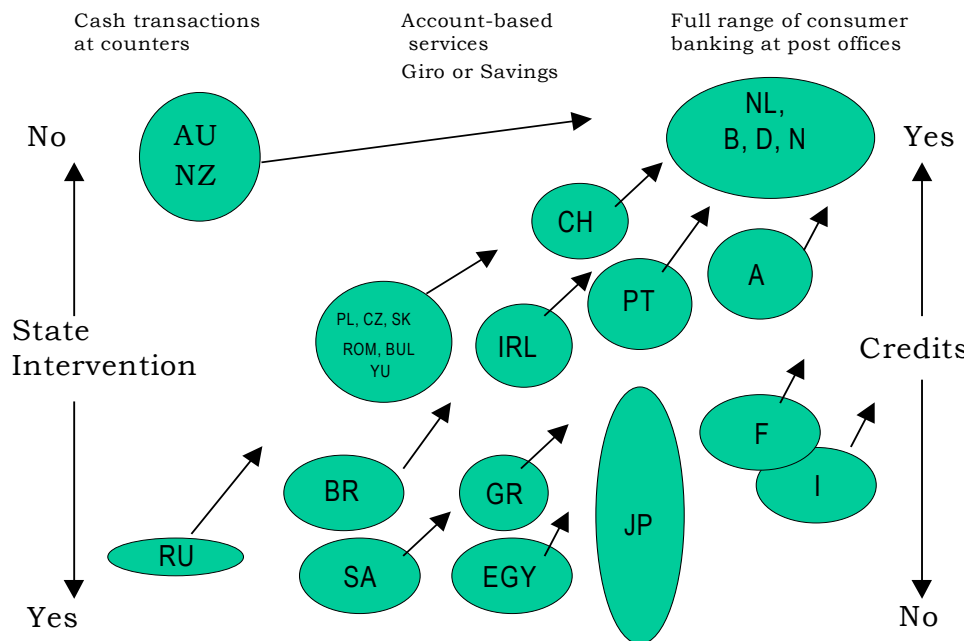


In other countries, discussions on the reform of the post and the introduction of postal financial services take place. A particular aspect is that in nearly every Latin American country large domestic and international banks are the posts' largest mail clients, generating more than 25% of the annual mail flows.



**GUIDING PRINCIPLES
FOR POSTAL FINANCIAL SERVICES REFORM**

5.7 Summary



The above chart concludes this section on the international scenario. The preceding pages have shown that there is a wide diversity of postal financial services. Many different attempts have been undertaken to achieve reform.

There appears to be no universal standard option to reform the institutional context for postal financial services.

Key factors in the change process are not money or technology, although both play important roles.

Success factors in the change process are:

- management vision and ability to influence stakeholders, including regulators;
- market conditions, including the presence of competitors and potential partners such as posts and financial institutions that might invest in the concept of sales through post offices;
- dedicated marketing management who are willing to build up the specific new service concept, and are aware of the difference between the ‘postal financial services and banking concept’ serving the whole population, and the ‘commercial bank concept’, which is mainly focused on individualized services and sophisticated products for limited customer groups.

In spite of the diversity of the institutional context for postal financial services, a set of sound business strategies or ‘best practices’ can be recommended for the development of these services. This is addressed in the next section.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

6 Best Practices - Highlights




In spite of the diversity of postal financial services around the world, a basic set of common, sound practices can be suggested for effective operation and development of the postal financial services.

This section attempts to provide an outline of ‘best practices’ as applied by those posts and postbanks that are considered to be successful and world leaders. This section also intends to provide information regarding how to evolve from an existing situation towards one that employs these successful practices.

This section intends to provide neither detailed nor universally applicable ‘cooking recipes’ for developing the financial services through the post. Despite the diversity of the posts’ needs and individual problems, it is possible to employ ‘best practices’, even in cases where there are significant differences in:

- market conditions;
- the payments and savings culture, tradition and systems;
- the historic role of the post offices in the provision of financial services; and
- specific legal conditions (e.g. requirements of the central bank regarding the role of post offices in the financial system).

BEST PRACTICES

- Market conditions
-  Profile of the post
-  Cross-selling
-  ... Cost efficiency

In any case, a gap analysis and an adaptation to the specific situation is recommended.

‘Best practices’ are also likely to evolve as the markets and players (postbanks and posts) continue to change.

In particular, the further liberalization of the postal sector, the consolidation and globalization of the financial sector, social security reform and technology developments might have considerable impact on the practices of postal financial services in emerging, developing and industrialized countries.

Building and implementing **from scratch** a modern postal financial services operation (such as a ‘postbank’) is a programme needing up to ten or more years to reach maturity. The programme needs to find a balance between the need to build up long-term value and the short-term need for positive cash flow. It will be useful to break down the programme in smaller projects with individual cost-benefit analyses. A postbank programme makes sense and justifies large-scale investments if, within 3 to 4 years, it reaches a break-even point and creates new revenue flows for the post office network. In some countries, the option to build a postbank step-by-step is not applicable because the process might be too slow and clients would be lost to competitors. In those cases, certain shortcuts would be necessary to accelerate the creation of a postbank.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

The following section looks at ‘best practices’ in market-entry strategies, product and client segmentation, marketing and business process design.

Again, it does not intend to propose a single solution, but rather to indicate directions and various solutions that can be taken into consideration.

The practical application of ‘best practices’ will find its expression in the detailed business case study and in the project realization procedure, by strictly following a project development methodology.

6.1 Market Positioning Strategies

Market-Entry Strategies

Effective market entry strategies are of vital importance for the operators of postal financial services in emerging markets. The issues at stake often concern the modernization of postal payments services targeted at new customers and, in particular, the introduction of new or additional financial services.

Financial services offered through the post offices are in full competition with those offered by banks, insurance companies and other financial institutions.

Market Position, Profile and Branding

As a point of departure for the development of the postal financial services, most of the posts and postbanks in Western Europe have been rethinking their position. Extensive market and strategic analyses indicate that financial services provided through the post offices benefit from a different and unique position in the market. This is in direct contrast to most banks and insurance companies who seek to share a similar profile.

The ‘unique’ features in the concept of financial services through the post offices are based on the post’s dense network, its relation to the entire society in processing information and facilitating communication, and its solidity.

In many Western European countries, the concept of postal financial services meets increasing competition from ‘direct financial services’. This concept (“no bricks but clicks”) is based on banking without branches and using telecommunications applications (call centres and Internet). Research carried out in a number of Western European countries indicates that a group of only 25-30% countries is currently interested in this concept. Often the ‘direct’ approaches are complemented with physical appearances in retail chains (e.g. supermarkets and petrol stations). As shown in countries such as the Netherlands, Germany and Ireland, a multichannel concept in which post offices feature as physical outlets can be very successful.

As discussed in Chapter 3, the concept of providing retail financial services through the posts is based on the 4Cs of Convenience, Credibility, Competitiveness and an approach which is Crystal clear.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

Additionally, the 3Cs of Communication (advertising), an integrated Customer approach and excellent service quality support the concept.

'Branding' of financial services is also a very important issue that needs to be addressed in the early stages of the development or expansion of financial services.

One can observe that it is a successful practice to choose a brand that is closely related to the post itself. For the customer, this is easy to understand and to remember.

In some countries, the post actually uses its own brand to sell the financial products of other institutions. This is the case in Switzerland where the Swiss Post sells banking products of UBS and insurance products of Winterthur under its own label. A division called 'Postfinance' handles the sales of the products.

Postal branding also proves to be effective in Central and Eastern Europe. In a nation-wide marketing survey carried out in Bulgaria in 1993, the question was asked as to which bank operates in the post offices. Of the representative sample, 45% answered correctly: Bulgarian Postbank (then in operation for only 2 years) and only 3% answered DSK, the state savings bank (which had operated in the post offices for more than 45 years).

In many cases however, the choice is made for a brand that indicates both the post and a financial institution (Post-Bank, Post-Giro, Postal Savings, etc.).

It should be noted that selling a non-postal brand through the post often appears to be less effective. It is exceptionally found in Western European countries (for example, in Spain, where Correos sells Deutsche Bank services).



Front office operation at the Postal Giro office in Riga, Latvia.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

Market Research

As a first step in the preparation of a market entry strategy, in-depth knowledge of the market is required. On the basis of observations and frequent client contacts, management and staff of the posts and/or of the postbanks may already have developed ideas about the market situation. However, this ‘intuitive’ approach is never adequate enough to plan the introduction of new financial products and services.



Market and opinion research should also take place in post offices.

It appears that market research which is focused on postal financial services is still underdeveloped in many emerging markets and developing countries. This does not apply only to postal financial services, but, in general, in-depth mass consumer marketing appears to receive a ‘low-priority’ status.

Ideally, in a situation which employs ‘best practices’, the following market research functions can be distinguished:

- Continuous economic research providing data to all marketing management;
- Product research and testing, product pilot tests;
- Communications testing (both pre- and post-testing).

It is a typical practice for successful providers of postal financial services to focus the market-entry strategy on:

Mass Market

The mass market could be defined as the adult population with average and below- average income in both urban and rural areas. This profile describes the most frequent visitors to post offices, and it would also justify the effort that needs to be taken to introduce new services. Focusing on small niches of the consumer market is not recommended in start-up phases, but it might be appropriate in a more developed postal financial services operation. In many countries with formerly centrally



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

planned economies, the competition in this mass market should be mainly expected from the state savings bank and the informal economy.



Focus on mass market, with post offices as multi-purpose service centres

Stable Growth Perspective

Given the effort that needs to be taken to launch nationwide new services through the post offices, priority should be given to promoting products to market segments that provide a fairly stable and long-term perspective for growth. This is the opposite of products that function in very volatile markets and that might have to be withdrawn within a few months or years. In many countries, both the markets for cashless payments instruments and savings as well as life insurance/pension plans appear to show interesting prospects. These types of products are suitable to be sold on a mass scale through the post offices.



Some services have a short time-to-market.

Time-to-market

Another important aspect in choosing the market-entry strategy is to look at the time-to-market feature. Products which require very complex and unique operations and systems which need a lengthy development time would not be good choices for a market-entry strategy. By the time the products can be introduced, the market conditions may have altered significantly. Given the example set by several Western European countries, it is preferable to select new products that can be introduced within 9 months. To realize the implementation within such a time period, it is imperative that the post and postbank (if applicable) set up a full-time dedicated project structure to undertake all preparations such as design, marketing, set-up of systems, communications, and training of post office staff. In many cases, it appears that the introduction of a savings or investment product was selected



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

for introduction as the first new product, and then followed by giro (payments) accounts that require more complex preparations.

Sufficient Margin

Having focused on mass market, stable growth perspectives and lead-time to introduce the product, the next main criterion for defining the market entry strategy is the margin or profitability of the product line. The market research and competitor analysis should provide a first impression about the potential profitability of the planned postal financial services.

In addition, extensive planning and research is required in terms of designing the marketing, operations (including IT), post offices, staff, data communications, etc., as well as amortization of the investments needed. This should be contained in the detailed business case study.

6.2 Product Architecture

Product Design

Practices among most providers of postal financial services in Western European countries as well as in other countries have shown that it is recommendable to design products based on the following principles:

- **Highly standardized**
Striving towards cost-efficient computerized processing of the products, exceptions in the product should be avoided.
- **Simple, easy to understand**
In such a way that product folders, Internet web pages, advertisements, etc., provide self-explanatory information to potential customers.
- **Convenient**
Easy to use, available at all post offices throughout the country, no fuss.
- **Transparent conditions**
Clear unambiguous information about the terms and conditions of the product, including prices and tariffs.
- **Fast/reliable/sure**
The product operations need to be reliable, timely and the client needs to be assured that his deposited money can be made available immediately, while transfer transactions are performed within a certain clear time limit.

From country to country, the importance of the individual product characteristics may differ. In all cases, the reliability, certainty and timeliness of operations are of fundamental relevance.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

The importance of other product characteristics depends very much on the local market situation, regulations, and technological circumstances.

In the context of the above characteristics, the role of the smaller and medium-sized post offices would be typically to provide the services at universal counters.

This is a convenience that enables the client to do ‘one-stop shopping’.



Cards linked with accounts are the core product in most postbank operations.



Product Launch

Once the product has been designed (including the processes and procedures, the marketing campaign, etc.), it is often useful to undertake a preliminary pilot project in a region or with a specific group of potential clients (e.g. students, postal employees). This is especially valid when an entirely new type of financial product (e.g. a card or life insurance) is being introduced. The pilot test is likely to better show the customer response and to reveal any shortcomings in the product and its delivery.

Upon the evaluation of the pilot test, a nationwide launch can be prepared.

The experience of Western European countries has shown that this needs to be a well-prepared and concerted effort. To maintain a solid reputation with the public at large, the launch cannot suffer from failures or mistakes.

For the processing, IT and communications can be technically tested in various runs. As regards marketing and communications, it is a sound practice to ‘pre-test’ a nation-wide campaign with a small sample of customers. Additionally, post office employees need to be provided with training and information, well in advance of launching the product.

Lead Products and Product Packages

If we look at the practices in Europe regarding the introduction of new products through post offices, we can distinguish the following types of products:

- **Savings accounts with competitive interest rates**

These products are useful to build up an initial relationship with the client and as a basis for sales of other products, such as payments accounts and life insurance for long-term savings.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

- **Payment (giro) or savings accounts and related cards**
These accounts can be used to further develop customer confidence.
- **Pension plans/life insurance**
These products are attractive when the social security system is being reformed in such a way that the state will reduce its role in social security and encourage adults to make individual arrangements for old age pensions. They would provide a long-term relationship with the postal financial services and could lead to sales of future financial products.
- **Credit**
Consumer credit might also be considered as a lead product, however, the risk profile is much higher. The product is more complex than those products mentioned above, and advanced systems and experienced staff would be required to operate the product adequately. Consumer credit would be useful in establishing a medium-term relationship, during which other products could be offered gradually: both payments and savings.

6.3 Client Segmentation

Although it was mentioned before that postal financial services should be directed towards the mass market, it is useful to consider that this mass market can be further subdivided into segments. This segmentation is useful to develop different types of advertising and communication which are appealing to the interests and needs of the diverse segments. Moreover, through segmentation, it is possible to better monitor the behaviour of the various groups and use this knowledge at a later stage for the development of specialized products.

Initially, segmentation could be undertaken to include the following groups:

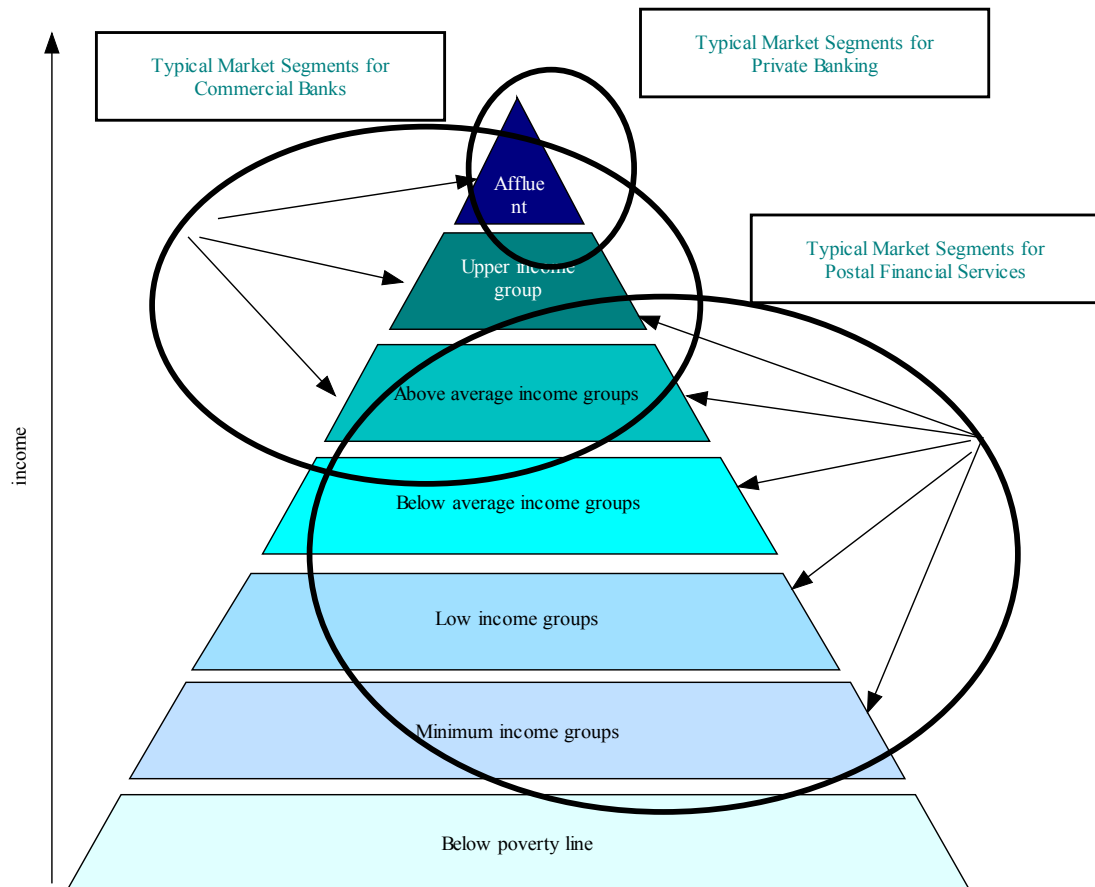
- adults in the age group of 21 to 60 (or 65) with regular income from labour;
- adults in the age group of 21 to 60 (or 65) with social security income;
- adults in the age group of 21 to 60 (or 65) with no or very irregular income;
- students in the age group of 16 to 25;
- pensioners.

Subsequently, a further refining is possible by adding socio-demographic data (marital status, education, location) and data about the actual use of the products offered.

These additional data will become useful for the development of direct marketing and database marketing tools.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM



6.4 Marketing

Sales and Promotion

Sales and promotion are a specific aspect of the marketing of postal financial services.

Multimedia advertising campaigns (in the national press, TV, radio, posters and brochures in post offices, direct mail) should actually aim at pulling the customers to the post office counters in order to open and use the financial products (savings, payments, etc.).

The layout and design of the post office is therefore an important element, including the availability of displays for product literature and posters.

As mentioned before, in most countries, product design has led to very standardized and simplified, easy-to-understand products. These can be supported by self-explanatory brochures, application forms the client can fill out himself, etc. This is not only convenient for the client but it also reduces the time spent at the counter, as well as the cost for opening the account.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM



Postal re-styling in the Netherlands

The training of post office employees is important. They should be fully able to deal with basic questions about opening the product account, including how to fill out the application forms as well as how to accept and process the forms (to the extent needed at the front office).



Client Services employees help to deal with more difficult questions from clients and/or post office staff.

Pricing

In line with the product design characteristics, pricing should be presented that is transparent. This is often the opposite of the habits of many financial institutions which sometimes include hard to understand, legalistic fine print in their contracts. Transparency in pricing could be seen as a competitive element of the postal financial services.

The transparency is also likely to attract customers who have had bad experiences with banks or insurance companies regarding conditions that were not initially observed or understood.

A clear and transparent pricing policy makes it easy for the consumer to compare the pricing with the offers of competitors. Such a policy will often find support from the National Consumers' Association and/or the Ministry that is responsible for consumer protection.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

As regards tariffs, it is a 'best practice' to apply fees for transactions and operations which involve additional efforts (e.g. an extra copy of an account statement or an express transfer).

In many of the Western European countries, one finds that the basic (giro) payments services are provided free of charge or at a very low cost (e.g. the annual fee for a card).

As regards interest rates, one can observe two elements in a 'best practice' policy.

The interest rate for deposits/savings should be competitively high, thus expressing the cost-efficiency of the savings operations (except for the fact that no personal advice is given). For countries with transition economies, it appears that the postal savings interest rates should be competitive with those offered by the national or state savings bank, as the latter usually has a dominant position in those countries.

Price leadership might be considered during the introduction period of the savings, but in the long term, it is recommended to position the interest rate slightly above the average interest rate.

As regards consumer credit, a similar policy could be applied.

Multichannel Distribution

It has been widely recognized that the post offices have a valuable and critical role in successfully selling and processing financial services. However, the post offices also have a number of limitations when selling financial products. This is why it is useful to consider the concept of 'multichannelling' as a cost-efficient and effective solution for full-fledged retail banking. In the multichannel concept, other channels complement the sales and operations at the post offices. The post operates one of these channels: the letter mail service through which the direct-mail advertisements, statements of accounts, and response coupons of customers flow. Other channels are the functionally and historically closely-related telecommunications for call centres, Internet/E-Commerce, and PC-based banking, as well as ATMs (Automatic Teller Machines, which are also known as Bankomat/Postomat/Giromat).

6.5 Business Process Design

Business process design is a universal method for designing and implementing operations management systems in production as well as in service environments. It is strongly recommended to use this method of analysis and design of business processes for postal and postal financial services development.

Reliability

A fundamental principle in the design of business processes for postal financial services is that the operation and services must be reliable and accurate. Any compromise in this area may harm the standing and reputation of the post and will undermine client confidence. Reliability is not ensured by technology only. It depends very much on the design of the process, the checks and controls in the process, its efficiency and the quality and structure of the organization and human resources managing and operating the financial services.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

Cost Efficiency

Postal financial services typically deal with bulk and small-value operations and a mass client database. This is different from many banks where a large part of the operations concern large-value transactions. These features imply that the business process design has to build upon the principle of cost-efficiency from the very first step until the last one. Implementing a high degree of standardization and computerization and eliminating all sorts of 'exceptions' can achieve cost-efficiency. Through a high degree of standardization, it will become possible to achieve 'economies of scale' in the business process. Some practical implications of cost-efficiency are working with postal universal counters for standard financial transactions and eliminating paper as the carrier of financial transactions beyond the counter.

Standardization

Standardization should be nothing new for postal services as a guiding principle in the business process design for postal financial services. Bulk letter mail processing is also a process that is centred on the principle of standardization. For postal financial services, it is of critical importance: the more that exceptions are allowed, the higher the cost per processed transaction and thus the lower the margin for the post and the involved postbank. Standardization means applying industry technology standards for the postal financial services systematically and thoroughly.

Technology

Technology has become a key factor in the provision and operation of postal financial services. The optimum technology configuration differs from case to case. Some generally valid principles are that the applied technology should be 'proven technology'. Postal financial services rendered on a mass scale cannot afford to be a victim of some technological experiment. When selecting new technology applications, it is necessary to know where the application has already been implemented, and whether this situation has similarities to yours. If the implementation of new technology is considered, it may be best to start with a small pilot group of consumers who are aware of the experimental character, prior to launching it nationwide.

The volume of transactions for the postal financial services is much larger than that of banks and, accordingly, the technological needs are different. In planning, selecting and testing technology, it is vital to know what 'peak' performance is needed and then 'stress' tests need to be undertaken to check the technology's capability of processing large volumes.

Internet

The main features of postal financial services (standardization, commodity, self-explanatory) should make it possible to consider Web-based applications for the 'front office' e.g. the post office counter and post office hall.

Compatibility

Postal financial services are not a 'stand-alone' undertaking in the postal and financial sector. For the design of postal financial services, the standards for cards, documents, scripts, etc., used in the financial sector and in the automated inter-bank clearing house should be considered for application. This is also true for cross-border and international financial services for which standards need to be



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

applied that comply with those issued by the pertinent international organizations (e.g. Eurogiro, SWIFT, VISA, MasterCard).

Primary Processes and Secondary Processes

Postal financial services deal with client transactions for which accounting systems need to be maintained.

In the design, it is useful to make a distinction between the primary business processes and the secondary and supporting processes. Primary processes deal with client operations. Continuity (in some cases 24 hours per day and 7 days per week) has to be ensured. Development of new products and testing cannot interfere with the on-going primary business processes.

Secondary processes relate to accounting, management information and quality control. These processes should be separately organized from the primary processes (transaction and client databases) and they require different technology solutions.

6.6 Project Development Methodology

The methodology used in business process design usually includes four well-defined phases:

- 1 **Analysis**
Strategic analysis of the current situation
- 2 **Process design**
 - Operational business concept and determination of the technological solution
 - Project specification
- 3 **Implementation / realization**
- 4 **Audit – evaluation of the results.**

The re-design of a business process is not a task that can be done ‘in-between’ the on-going business. To effectively realize a business process re-engineering programme, the strict application of a modern project methodology is required. This means that expert resources, possibly both from internal departments and external sources, are brought together in a temporary organization: the project structure. The project structure would need to consist of dedicated, specialist working groups and a project task force to manage the project. The project needs to be overseen by the management, such as a steering committee. For all phases of the re-engineering, it is useful to apply an improved project development method.



**GUIDING PRINCIPLES
FOR POSTAL FINANCIAL SERVICES REFORM**

7 Conclusion and resulting institutional models

Postal financial services (PFS) reform contributes to:

- commercially viable and economically sustainable post office networks which provide open and affordable access to standardized financial services, information, communication and other consumer services;
- enhanced competitiveness of the post office network in retail financial services delivery;
- improved turn-over at post offices, optimized utilization of the fixed assets and staff, and thus an improvement in the return-on-assets (ROA) ratio;
- security of quality employment at post offices;
- creation of cross-selling opportunities between postal, retail and financial services;
- an increase in investments which help develop the post office network.

PFS reform contributes to a better standard of living and it improves competition.

The primary drivers and key-players in the PFS reform process are those people at the top management level of the posts.

PFS reform needs facilitation and support from governments, although direct legislative and financial intervention may not always be required. Thus, a balanced approach between public interest and market drivers (postal sector, financial sector, customers, technology, etc.) might be preferred.

The international scenario shows a broad set of institutional options for the successful realization of PFS reform. Among all the different solutions, some main institutional models can be recognized:



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

7.1 A PFS Business Unit within the Post

Postal financial services could be structured as a central PFS business unit with nationwide responsibility for revenues and costs, product quality, standards and for consolidated cash management, risk management and relations with banks.

Business Unit within the Post: limitations

An obvious option seems to continue the current postal payments operations and to expand them with new products and services.

Pro

- Post keeps in full control of the operations and revenues; no potential conflicts with partners to develop or change the services
- Post will have all revenues/ profits from the financial services; no need to share them with external partners
- Post will not associate its image and reputation with banks which might default or be taken-over in the process of banking reform

Contra

- Post not licensed by the Central Bank to expand under its own name into account-based financial services. It is often not plausible that a state-owned non-bank would be created to directly compete with the increasingly privately owned banking sector.
- Expansion to new products/services limited
- Risks on banks for settlements might be difficult to oversee
- Management to develop the PFS might be difficult to recruit or retain

A first step in structuring the financial services within the Post [in any of the options] is to set-up a central Business Unit having nation-wide responsibility for the revenues/costs, product quality and standards, consolidated cash management, risk management and relations with banks. An agency agreement might evolve into a Partnership agreement, Alliance or long-term form of cooperation



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

7.2 Agency Agreement

An agency agreement could be an adequate ‘next step’ in structuring the postal financial services within the posts in order to add some new services and to gain additional revenues in the short term.

The option may be suitable if detailed cost accounting and a management information system (MIS) do not exist within the post.

An agency agreement can also be used as a learning process to select eventual partners. Such an agreement might evolve into a partnership agreement, alliance or a long-term form of co-operation.

<h2>Agency Agreement</h2>	
<i>An option is to expand services through an agency agreement and to sell/process those services through the post offices at an agreed commission or fee.</i>	
Pro	Contra
<ul style="list-style-type: none">• Post keeps in full control of its own operations and revenues; Post can have strong influence in conditions for the Agency agreement• Post will share revenues/ profits from the new financial services• Post 's image and reputation might be strengthened through the services expansion	<ul style="list-style-type: none">• Agency agreement may not develop as a mutually satisfactory modus of cooperation, resulting in continuous clashes over fees, commission, quality, responsibilities• Agency agreement can be set for the long-term but can be cancelled at short notice; does not provide a basis for commitment• Agency agreement typically does not lead to investments in the modernisation of the post offices and its staff
<p>An Agency Agreement can be an adequate, intermediate next step in structuring the financial services within the Post to add some new services and to gain additional revenues in the short term. The option may be suitable if detailed cost accounting is and MIS is absent within the Post. The Agreement can also be used as learning process to select eventual partners</p>	



**GUIDING PRINCIPLES
FOR POSTAL FINANCIAL SERVICES REFORM**

7.3 Postbank Subsidiary

An option is to develop the PFS business unit to function as a separate and licensed entity ('postbank') that would be a subsidiary of the post.

Such a solution would help to secure the continuity and expansion of the postal financial services. In cases where the posts have no significant account-based PFS tradition and lack of capital resources, this solution may be unfeasible in the short term.

<h3>Postbank Subsidiary</h3>	
<i>An option is to develop from the PFS Business Unit towards a separate entity "Postbank" that would be a subsidiary of the Posts</i>	
Pro	Contra
<ul style="list-style-type: none">• Post keeps in full control of its own operations and revenues; Post can have determine the strategy and conditions for development of the Bank as owner; congruent strategy• Post will share revenues/ profits from the existing and new financial services• Post 's image and reputation might be strengthened through the services expansion	<ul style="list-style-type: none">• Postbank needs to capitalized and licensed according to the Banking Laws. This often appears an unsurmountable obstacle. Minority co-investors might help• Management has to work separate with own responsibility; this might lead to conflicts. Cost allocation, quality control and compensation for the use of the post office network may present difficult issues.• Postal Management will need to find a fair balance between profitability of the Postbank and investment into, financing of and compensation for the postal network• Postbank might be too small to compete with existing banks
<p>A Postbank Subsidiary might be an adequate solution especially if it concerns the transformation of an existing, profitable PFS Business Unit into such Bank. The solution would help to secure the continuity and expansion of the PFS. In cases where the Posts has no significant PFS tradition and lack of capital resources, the solution may appear not feasible</p>	



**GUIDING PRINCIPLES
FOR POSTAL FINANCIAL SERVICES REFORM**

7.4 Postbank Joint Venture

Another option is to develop the PFS business unit to function as a separate and licensed entity ('postbank') that would become a joint-venture between the post and a selected bank. This option could be come under consideration in cases where the post does not have the license, management and/or capital to offer all the services it needs to offer to its customers and where banks in the country are looking for an expansion of their networks. By opening the postal network for a joint venture with a bank, the continuity and expansion of both the postal financial services and the post office network can be secured.

The joint venture would help to attract new services, additional revenues and investments in the post offices.

Postbank Joint-Venture

An option is to develop from the PFS Business Unit towards a separate entity "Postbank" that would become Joint-Venture between the Posts and a selected Bank

Pro	Contra
<ul style="list-style-type: none"> • Most of the obstacles in the case of Postbank Subsidiary might be solved • Post keeps in full control of its own postal operations and revenues; Post can co-determine the strategy and conditions for development of the Bank as co-owner; congruent strategy • Post will share revenues/ profits from the existing and new financial services • Post 's image and reputation might be strengthened through the services expansion 	<ul style="list-style-type: none"> • Selection process for a JV might be difficult; requires a through preparation process and a transparent offer. Involves possible 'privatisation' discussion, especially regarding the transfer of existing PFS operations and staff. • Management has to work separate from Post with own responsibility; this might lead to conflicts if no clear strategy has been agreed upon. Cost allocation, quality control and compensation for the use of the post office network may present difficult issues.

A Postbank Joint-Venture might be an adequate solution especially if it concerns the transformation of already existing PFS Business Unit into a JV and if/when Banks in the country are looking for an expansion of their networks. The solution would help to secure the continuity and expansion of the PFS and the post offices network. The JV would help to attract new services, additional revenues and investments in the Post offices

7.5 Private Sector Partnerships

In addition to postbank joint ventures, there exist several different types of partnerships between posts and private financial institutions. These can be established on the basis of a management contract consisting of a range of business activities, functions and responsibilities.



GUIDING PRINCIPLES FOR POSTAL FINANCIAL SERVICES REFORM

Such partnerships are especially suited for long term projects.

7.6 Summary

Postal reform is an on-going process in many countries. Much of the fear of having to trim down the post office network and to reduce employment can be turned into a positive scenario if Posts are putting more emphasis on the development of the financial services provision through the post offices. There is no “one size fits all” solution for the strategy and structure to undertake projects in postal financial service development.

Clearly, the financial services need a dedicated strategy and structure if they are supposed to render significant benefits to the post office network.