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**Postal financial services, development and inclusion:
Building on the past and looking to the future¹**

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Abstract

Post offices, inherited from the Industrial Revolution, were monolithic telephone and postal administrations. They were intimately linked to the fabric of nations and made significant contributions to state finances. From the 1960s onwards, integrators, such as UPS and FEDEX, started offering end-to-end express services, thus challenging the postal monopoly in new high added value services. Gradually, the liberalization paradigm gained ground. Telecommunications and sometimes financial services were spun off from postal operations. More recently, new policies and priorities started to emerge especially on the development agenda where financial inclusion has become a top priority in the developing world. The question to be addressed is which role, if any, the posts play or could play in ensuring inclusion.

Despite an exceptionally scarce research in the field, this paper provides an overview of how these shifts in paradigm have affected postal policy, the postal financial services regulatory framework, the status of the organizations delivering those services and the offerings themselves in developing as well as in developed countries. After a research review, including the regulatory dimension, the paper focuses on how postal financial services institutions in their legal framework have developed bringing to the fore a panorama of a dozen of promising transformations of financial postal services in developing countries.

Keywords: development, financial inclusion, financial postal services, Universal Postal Union, telecommunications

JEL: G23 : N20; O16; O17

¹ The views expressed here are those of the authors and should not be attributed to the institutions to which they belonged.

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1. Introduction

Post offices, inherited from the Industrial Revolution and the Rowland Hill one-penny stamp reform in the UK, were monolithic telephone and postal administrations. They were intimately linked to the fabric of nations and made significant contributions to state finances. From the 1960s onwards, integrators, such as UPS and FEDEX, started offering end-to-end express services, thus challenging the postal monopoly in new high added value services. From cash generating enterprises, more and more posts ceased contributing positively to government finance due to a combination of high fixed costs - particularly labour costs - and heavy bureaucracy.

Gradually, the liberalization paradigm gained ground. It challenged monopolies, starting with airlines and telecommunication operators, and was then applied to all network industries, including posts. Many of the latter were subsequently transformed into public enterprises or incorporated, but few were privatized. Telecommunications and sometimes financial services were spun off from postal operations. The European Union (EU) led in the process through its market integration agenda, but not the US where USPS remained a government agency. As a result, some European posts have been in full competition even prior to the 2011 EU deadline. Finally, technology and Internet-induced convergence have blurred even more the boundaries of the postal sector with significant diversification away from physical mail.

With the Industrial Revolution, the mission of collecting savings and delivering payments to citizens, then mostly un-banked, had been inherent to post offices that combined the benefits of a centralized organization, a ubiquitous retail network covering the whole territory and last-mile delivery. Money and postal orders grew in the 19th century and, as early as 1878, a Universal Postal Union (UPU) multilateral treaty was signed concerning international postal money orders. In 1864, Gladstone set up the National Savings system through the post office as a convenient way to save for the large part of the population that did not have access to banks, and also as a cheap way to finance public debt. Another innovation in 1883 by the Austrian Postal Savings Bank, the “giro” system, whereby a written instruction authorised the debit of one account and the credit to another, also spread rapidly throughout the world and revolutionized payments. This new system created a mass market alternative to cheques that, until then, had been a bank preserve for a small minority. Today’s financial services retailing on its own represents, according to the 2012 UPU statistics, 72% (40%) of total postal revenues in Arab countries, 52% (26%) in Europe and Commonwealth of Independent States, 52% (12%) in Africa and 39% (20%) in Asia. In the industrialized countries, it represents 25% of revenues (12%).⁵

In the same way as postal operators, postal financial institutions and their offerings have evolved and diversified. Dominant paradigms have influenced the political decisions

⁵ In the UPU statistics, financial services are to be found under two statistical categories: on one had the category of “financial services”, on the other hand, the category of “other” as third party payments and other financial services represent the quasi totality of that category. The figures referred to here result from the addition of these two statistical categories. The non-bracketed figure corresponds to the “financial services” category while figure without bracket corresponds to the above mentioned addition.

regarding them. Some postal financial institutions have become fully fledged banks. Others have been modernized while retaining their status as non-bank financial institutions. Others have disappeared altogether in Nordic countries, transition countries and the developing world. Most are still state-owned but some are wholly or partly privatized. In 2005, the structural separation in Japan between savings, insurance, postal and retailing operations and the resulting reduction in the rural network caused public discontent and contributed to the first change in ruling party in fifty years. The recent political reversal led to the decision to privatize gradually the post. This illustrates how politically sensitive the issue or the role of posts in delivering financial services is.

Among new public policies, financial inclusion has become a top priority in the emerging countries and the developing world. This does not mean that financial exclusion is not also an issue for countries belonging to the Organization for Economic and Cooperation Development (OECD). In the United States, the number of un(der)banked citizens is estimated by the Federal Deposit Insurance Corporation (FDIC) to reach 60 million and the creation of a new postal bank both to remedy financial inclusion while making the post office sustainable is hotly debated. In the EU, further to a consultation, the European Parliament has just adopted a directive on the right to a basic account. The question to be addressed is which role, if any, the posts play or could play in ensuring inclusion.

The purpose of this paper is to give a rapid overview of how these shifts in paradigm have affected postal policy, the postal financial services regulatory framework, the status of the organizations delivering those services and the offerings themselves. Research in this field has been exceptionally scarce. After a research review in Section 2, including the regulatory dimension, Section 3 focuses on how postal financial services institutions in their legal framework have developed historically distinguishing three main periods:

1. Post and Telecommunication Administrations since Rowland Hill (1839-1979)
2. Postal and Postal Finance liberalization since Reagan-Thatcher (1979-now)
3. Emergence of financial inclusion as a new national public policy priority since the Monterrey Consensus (2002-now)

Each period has its structural characteristics (office network, product bundles) and its change drivers (technological and social) that have shaped postal operators. Behind the liberalization and financial inclusion agenda, the ensuing governance and regulation frameworks will be analysed on an illustrative but not exhaustive basis. Important research challenges arising from this review are summarized in Section 4.

2. Some milestones in research on postal financial services

There are only a few case studies on the evolution of postal financial services delivery in European countries (Anderloni and Pilley, Anderloni and Ruozi). Even less research has been carried out on transition and developing economies.

From the late 1990s to the mid-2000s, the United Nations Department of Economic and Social Affairs (UN-DESA) bucked the liberalization trend. It pioneered research on the role of postal savings institutions, partly as a response to the south-east Asian and Russian economic crises. The 1999 UN survey of financial development stressed the role that postal savings did play - and could play even more - in collecting savings and giving access to basic financial services to the majority of the population that is financially un(der)served in developing countries. A project funded by the Japanese government gave rise to a discussion paper on the role of post offices in Africa, Asia and the transition economies in 2001 and then to a joint publication (M J Scher and N.Yoshino) in 2004. The Asian section benefited from the UPU's contributions.

The research showed that safety and security of deposits, particularly in developing economies, are much more important to savers than returns, above all in countries where financial systems are not stable. Indeed, Kalala (2001) pointed out that in some West African countries, the fee paid to money-keepers is indicative of the value placed to safe-keeping. This major safety concern has been formally met by the government guarantee. It also appeared that structural separation and privatization of the postal financial services arm had an overall negative effect on the network, since it is the synergy of postal and financial services that makes postal financial services uniquely efficient. Difficulties arise when the package of services is unbundled and the former obligation of newly separated components to sustain the entire network is removed, without the Post being able to share in the profits generated.

In brief, the separation of the Post from the financial services arm was seen as destructive of the synergies that made providing services to low-income household feasible, the ultimate risk being the disappearance of postal financial services altogether. The ensuing recommendation was to have a strong government policy to collect savings through the postal network. This implied proper valuation of the network as a socio-economic asset. An informed choice had to be made between agency agreement, delivery of own services or strategic alliance either with a postal bank or with a national savings institution that reinvests into the community or fulfils public missions.

The three-year World Bank study of the role of postal networks in expanding access to financial services in developing countries was carried out by ING Institutional and Government Services using assumptions, albeit nuanced, of the liberalization paradigm. It (2005 and 2006) also involved CGAP⁶ and the WSBI. A list of 87 developing countries was analysed, using secondary data. The major lesson drawn was that postal financial services can be provided according to different scenarios and institutional structures. Recommendations regarding regulation mirrored the dominant approach in Europe: regulatory and structural separation of postal and financial services. Two types of strategies were advocated: either the

⁶ CGAP stands for Consultative Group to Assist the Poor and WSBI for World Savings Banks Institute. It is an evidence-based advocacy platform to advance poor people's access to finance. It includes over 35 development agencies, private foundations, and national governments that share a common vision of improving the lives of poor people with better access to finance

postal network as a conduit for financial services provision, or an alliance with a fully-fledged financial services provider.

Most postal financial services organizations were still owned by the State with some exceptions, not only in developed, but also in transition and developing economies. In Africa, Asia and Latin America, the central banks had responsibility for postal financial services in about half of cases. If so, there was often a service level agreement between Post and postal financial service organization. In Asia, ministries of finance were most often involved in the supervision of the postal savings operation and in investing the funds collected. When the Post was still a monolithic administration with no reporting links to the central bank, the relationship with the Post was internal, with most often shared management and operational functions.

It was noted with regret that, in most cases, there was no government postal policy and postal networks were not included in programmes to upgrade payment systems to cashless, even where post offices had a reporting line to central banks. In all regions, mail volumes were significantly lower than in industrialized countries and financial services were essential to network sustainability. Although some benchmark practises were identified in each region, a typology of postal savings institutions was not established and results not yet evaluated in the context of financial inclusion and social and economic development.

The WSBI has produced extensive applied research on access to finance through savings banks, including a significant number of African and Asian postal savings banks. Research covered regulation, the role of savings banks in micro-finance and also financial education. It drew attention to the wider choice open to citizens in countries where several types of financial institutions co-existed and to the potentially higher systemic risk of a financial industry comprising only fully fledged quoted bank. It showed how doubly exclusive the commercial bankers club was, monopolising representation both in national and international policy-making, supervisory and regulatory bodies.

The strength of the banking lobby was demonstrated by the UK (Cruikshank, 2000) inquiry into competition in retail financial services that led to the opening up of the clearing house membership to the post office. In addition, the lack of familiarity of banking supervisory authorities with non-bank financial services was shown to stifle innovation, a point also made by Western Union in its 2004 response to the EU consultation on the proposed payment services directive: “We, at Western Union, (..) have some concern that inadequate attention has been given to non-bank payment industry participants (...). Such payment service providers generate meaningful competition in the financial services market in the EU and should not be regulated as if they were banks and operated as banks do”.

On the basis of its research, the WSBI has been promoting access to financial services as an instrumental accelerator to meet the UN Millennium Development Goals⁷. Its June 2010

⁷ The UN Millennium Development Goals (MDGs) are eight international development goals that were established following the Millennium Summit of the United Nations in 2000, in line with the adoption of the United Nations Millennium Declaration. All 189 United Nations member states and at least 23 international organizations committed to help achieve the Millennium Development Goals by 2015. The goals follow:

Roadmap for Postal Financial Services Reform and Development focuses on legal and financial autonomy of postal savings banks and requires this autonomy to be enshrined in legislation. Rather than entering the debate on public or private ownership, it stresses the importance of good corporate governance – transparency and clear supervision rules and regulations – to counteract the specific risks of political interference. The mechanism to achieve this is a shift to supervision by the ministry of communication to an independent body or the central bank. Policy recommendations to governments must start from postal reform and address fair pricing, development of account ownership through social benefit payment and links with micro-finance institutions. At the operator’s level, the key challenges are to build capacity, develop management information system, instil a commercial culture, improve efficiency and out-reach through training and technology.

Some of these recommendations are at odds with those of the UN-DESA, in particular as regards structural separation. This stems from the fact that the WSBI is taking, as a starting point, double bottom-line banks, unlike the UN-DESA which focuses on leveraging the postal network potential. In some countries, savings banks not distributing through the postal network have been competing head on with financial services delivered through the postal network.

In the Roadmap, questions remain as to why some experiences have failed and others succeeded, and whether the business model matters. These questions are being addressed through action research in the ten WSBI financial inclusion projects funded by the Bill and Melinda Gates Foundation, of which most include the postal network. A first WSBI evaluation has been published on how to provide usable services to the poor in Africa, Asia and Latin America (Angelow & others, WSBI working paper 2012). Early results suggest that profits can be made, but only by shifting from cash to electronic payments and adopting a development path that address first immediate payment and transfer needs before developing a cross-selling range. Much remains to be explored as regards genuinely understanding needs of poor clients, and which feature can improve the offering in terms of pricing and benefits.

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1. to eradicate extreme poverty and hunger
 2. to achieve universal primary education
 3. to promote gender equality and empowering women
 4. to reduce child mortality rates
 5. to improve maternal health
 6. to combat HIV/AIDS, malaria, and other diseases
 7. to ensure environmental sustainability
 8. to develop a global partnership for development^[1]

3. Three Periods in Post and Post Finance History

3.1. Post and Telecommunication Administrations since Rowland Hill (1839-1979)

Ever since post offices have existed to serve kings and trade, whether in the Mongol Empire or through the Thurn and Taxis enterprise, they have combined financial services with transport of letters, messages and goods (Scher 2001 and 2004). The traditional post office organizations go back to the Industrial Revolution. They evolved into monolithic postal and telecommunication administrations delivering payment services and collecting savings. Through significant profit generation, post offices provided states with extra budgetary revenues and collected funds to invest in development, including telecommunication infrastructure. The emergence of this new type of socially cohesive organization was due to a conjunction of factors:

- the rise of modern nation-states;
- Rowland Hill's postal reform in the UK, first launched on December 5, 1839 with a uniform post rate, and revised on January 10, 1840 with the one-penny stamp;
- Gladstone's collection of small savings in 1861 through the post-office network
- the 1878 UPU international treaty on money orders;
- the adoption of new transport and telecommunications technologies;
- the fulfillment of new communication needs with higher literacy;
- the creation of centralized autonomous cashless account-based postal payment systems, starting by the invention of the centralized account-based giro system by the Austrian post office in 1883.

Distinct industrialized post office models emerged in the Austro-Hungarian Empire, Belgium, Britain, France, Germany, Japan, the Netherlands, the US and the USSR. Besides common features, there were also several distinguishing factors. Thus, the funds collected could be managed by a government entity different from the post office or by the post office acting as a financial intermediary abiding by strict investment rules. Products offered could be limited to savings and money orders but also include transaction accounts and payments, and also life assurance as in Japan, India and other Asian countries.

Trust in the post office and the added government guarantees facilitated the mobilization of small savings, especially at times of financial crisis. The most striking case was that of the Japan Postal Savings, created in 1881 after the UK National Savings model, following a major banking crisis and a total loss of confidence in the banking system. It was until recently the largest financial institution by balance-sheet in the world.

It is mainly in continental Europe that account-based services were developed with the giro system and, later on, the cheque system copied from the banks first by the French Post Office. The UK post office and United States Postal Service kept mostly out of offering their own financial services, apart from traditional money orders. Postal savings were introduced by President Taft in 1910 on the back of his experience in the Philippines. Owing to bank competition and unattractive product features, this USPS service was eventually stopped in 1966. In the same way in the UK, the Girobank was set up in 1968 by a Labour government. It prospered, but was sold less than 15 years later by a Conservative government at a price below value according to the National Audit Office. Owing to government guarantee and transfer of collected funds to treasury and national savings organization, the financial services delivery of post offices was, in most cases, not controlled by the central bank. Instead it was highly regulated by the government through postal legislation of an administrative type,

including tariff-setting procedure. Provision of credit was not allowed, with the only exceptions of mortgages based on cumulated previous savings and limited overdraft facilities on transaction accounts.

African and Asian economies inherited the postal savings service initially set up to cater for the needs of the colonial civil service and exchanges with the colonizing country. The Austro-Hungarian giro model influenced Iraq, Lebanon, Syria and Turkey; the Belgian model central Africa, the British model, India and Bangladesh in Asia, and east/southern Africa; the Dutch model, Indonesia and South Africa and the French model, north Africa and French-speaking west Africa; the Japanese model mainly South Korea and Taiwan but also other Asian countries. These models have significantly evolved since independence.

3.2. Post and Post Finance driven by liberalization since Reagan-Thatcher (1979-2001)

A deep structural change started in the 1980s owing to a conjunction of several factors. Market fundamentalism was introduced in the Thatcher-Reagan era and reinforced by the fall of the Iron Curtain. Liberalization was intrinsically linked to privatization in the dominant political thinking of the time. Post offices that had been generating extra budgetary revenues felt pressures on their margins owing to their high fixed costs, bureaucratic inefficiencies, bad labour relations and insufficient investments. New integrators delivering end-to-end services to multinationals successfully challenged postal monopolies. ICT and delivery channels (initially telephone banking, then electronic data interchange and later Internet) then appeared complementing, and sometimes competing with, last mile mail offer.

The World Bank and other international institutions did not show any interest in Posts. This contrasted with Edward Prescott's statement in the early 1980s conversation that "postal economics might be more central to understanding the economy than monetary economics". UPU research showed subsequently that postal infrastructure was as important for development as roads, telecommunications or education, which had been overlooked for years (UPU, 2008).

Simultaneously, the EU Single Market integration policy initiated in the mid-1980s implied the removal of national monopolies. Whereas, in the US, liberalization had normally been driven by competition cases, the EU liberalization process was conducted through directives derived from the Treaty and case law and applied first to the innovation-driven capital intensive telecommunication industry. The EU telecommunications market opened up in 1998, simultaneously with the implementation date of the first Postal Directive and the Commission Notice on the application of the competition rules to the postal sector. The approach chosen by the EU was then adopted by the World Bank which had initially seen competition challenges as the main liberalization tool and not independent regulation. With a few exceptions in transition countries, the EU markets were fully liberalized on 1.1.2011 on the back of the third Postal Directive.

As a result of telecom liberalization, postal and telecommunications operations were split. As for postal financial services, they were also excluded, without it raising any questions, from the scope of the successive directives that adopted a narrow postal definition (letters and parcels), nor taking into account either the blurring of industry boundaries caused by information and telecommunications technology convergence, or the strong synergies between the postal, telecommunication and payment/financial services. In Sweden, high computer literacy was an additional change driver and the postal network was considered as

an expensive liability. In the case of Finland Post, it ultimately withdrew from retail financial services, a decision made as early as 2000. In structural adjustment programmes, postal financial institutions, frequently in a dire state, were separated from the post, often followed by the creation of a postal bank that stopped eventually distributing financial services through the postal network. This led to the demise of a number of posts. Mali is one such example.

Postal financial services in the EU fell under the scope of the banking, insurance and investment directives. Nevertheless, the Member States had and still have the sovereign right to entrust entities, irrespective of ownership, with public service missions (services of general economic interest in European parlance). In its postal decisions, the Commission did not see any manifest error in considering as a public service the financial services delivered through a public postal counter network, whose configuration is imposed by the state with a view to reaching out to all citizens, and in particular, the most vulnerable and isolated. As indicated by Pesaresi and Pilley (2003), compensation for the delivery of public financial services was considered compatible in Greece, Ireland, Italy, Sweden and the UK.

The Dutch were the precursors in the liberalization process of postal financial services. Their postal incumbent, TPG, was also the first to buy an integrator, TNT, and to be publicly quoted. They were the first to offer home banking by telephone and mail and to develop integrated multi-channel delivery. The Giro Bank and Savings Bank were merged into Postbank in 1968. Through its accounts and savings services, Postbank served about 60% of the population. The product range – without securities trading and life insurance – and skillset were, however, too limited to attract middle and high net worth individuals and serve the business market. In 1986, Postbank was incorporated. It was subsequently merged with NMB – a large Dutch bank – and obtained full banking status. The next move was to acquire Nationale-Nederlanden in 1991, a composite insurer that had insufficient size and was losing market share. The entity was renamed Internationale Nederlanden Groep (ING) in 1994 and started its international development with the acquisition of the Belgian Banque Bruxelles Lambert. It became the largest *bancassurance* company in the world with a low cost base due to its dual reliance on direct banking and the postal retail network. Postkantoren, the retail network including large/standard branches in shopping areas and sub-agencies was a 50/50 joint venture between TPG and ING that ended in 2008.

ING was badly hit by the financial services crisis and imprudent moves in the US. It received a €10bn capital injection in October 2008 from the Dutch state and was subsequently ordered to divest out of its insurance, investment banking and US direct operations, as a condition for the European Commission giving its green light for the “back to basics” restructuring plan⁸. It no longer delivers its financial services through the post office network.

The progress of Deutsche Postbank (DPB), another star of the postal financial services liberalization process, was bumpier and reflected the political tensions and hesitations of a government, whose main concern was Germany’s reunification. The DPB had been leading in payment automation and comprised the giro and savings business. It obtained some commercial freedom in 1989 and became an independent operation owned by the government - not by Deutsche Post - when the second phase of Germany postal reform was concluded. It received a banking license upon its incorporation as a joint-stock company in 1995, thus enabling it to offer a comprehensive range of financial services. From 1993, DPB customers were able to conduct their banking by phone and from 1998 over the Internet.

⁸ See www.ing.com

On obtaining its full banking status, the *de jure* universal service obligation to open and hold giro account and the *de facto* practice to offer related giro payments were lifted. DPB closed an estimated 300,000 small non-profitable accounts, most of which were re-opened with savings banks. The commercial retail banks published a voluntary charter to counteract the public outcry and an annual parliamentary investigation was requested to check that the banks, including DPB, were keeping to their commitments.

In 1999, in a strategic U-turn, Deutsche Post regained control of DPB by acquiring 100% of its shares. Deutsche Post's own IPO was launched in 2000. DPB generated record profits, continually increasing its retail market share. It acquired two specialized financial services companies, launched a successful IPO in 2004 and entered the DAX in 2006, while buying the 850 most attractive branches of Deutsche Post, in anticipation of its separation from the postal operator. It continued developing its unique expertise in in-sourcing payment transaction management for other banks. In 2008, Deutsche Post sold a 22% share in Deutsche Bank giving it the option to buy its remaining 38% share. Finally, it retained from its postal origin the name and a skill set in integrated channel delivery, not to mention a significant share of the highly competitive German retail financial services market. DPB had become the largest retail bank in Germany with 14 million customers and 5 million accounts⁹. It was gradually bought by Deutsche Bank that had to recapitalize it further, owing to unsafe investments, and the link with Deutsche Post became tenuous.

In line with ING and DPB, the aspiration for postal financial services institutions to become full-fledged publicly quoted banks became widespread. This became part and parcel of the structural reform programmes in developing and emerging economies with mixed results since the new postal banks tended to focus on wealthier market segments and stopped distributing through the postal network, thus threatening the viability of the network and abandoning the universal services mission previously implicit to their mandate (Scher and Yoshino, 2004, Anson and Toledano, 2010).

As far as postal financial institutions or the financial arm of the Posts are concerned, many have changed beyond recognition and have retained from their postal past only their "postbank" or "postal savings bank" name, particularly in eastern Europe and Africa. Further to political decisions, most north European posts that had initially played a central role in including financially the whole population withdrew from financial services.

The financial crisis itself has deeply shaken the new European postal financial services world. For example, Fortis, that was the joint venture partner of An Post and the Belgian Post, was bought by BNP Paribas that decided to close down the newly created Post Bank joint venture with the Irish Post. BNP Paribas, on the other hand, maintained the partnership with the Belgian Post.

The undisputable winners in the industrialized countries seem to be two postal financial institutions that do not have fully fledged banking status, i.e. the Swiss and Italian post offices, to which must be added the French post that chose the banking structure.

Where postal liberalization was positively anticipated by the government and operator, the postal financial services delivery was often stopped (Finland and Sweden) or the postal financial services institution was made into a bank, quoted and then totally separated from the postal network (Germany and the Netherlands). In the UK where there have been hesitations

⁹ See www.postbank.com

and tensions as to whether to privatize or not, the post has been considerably weakened and a half-heartedly and half-successful a new financial services proposition has been adopted with the network as a conduit (Pique, 2004). It is where the liberalization process has been more gradual that the financial services arms have prospered.

The outcome of the postal financial services regulatory reforms has been mixed. A systematic evaluation exercise has yet to be conducted that takes into account the industrial development levels. This should follow the recommendations of Laffont (2004), who has drawn attention to the significant differences between postal developments in Asia and in developed countries: “Liberalization, competition and regulatory policies are very recent developments, especially in very poor countries. The empirical evidence is limited and not of easy access.”

3.3. Emergence of financial inclusion as a new public policy priority coined by the Monterrey Consensus¹⁰ (2002-now)

While Europe was implementing EU postal and financial deregulation, new thinking and new models were developed in emerging and transition economies, and in a few industrialized countries. From the mid-1990s onwards, a number of economists challenged the market fundamentalism orthodoxy with its treble creed of competition, privatization and globalization, especially when applied to the developing world. Almost all rich countries, with the possible exception of the Netherlands and pre-First-World-War Switzerland, grew wealthy by protecting infant industries and limiting foreign investment. Britain and the US were not the only practitioners of infant industry protection. Such protectionism did not only apply to tariffs, but also to foreign investments particularly in banking. The same story was repeated in Austria, Finland, France, Germany, Japan, Korea, Norway and Taiwan, and now China and India. Stiglitz (2006) argued that insulated domestic financial services systems are information intensive and facilitate development. Before the sub-prime crisis, Dimsky (2005) drew attention to the systemic risk caused by the high risks and prices of financial services products specifically targeted at the poor as a result of the segmentation strategies used by financial institutions. He deplored the governments’ withdrawal from universal service regulation.

The Bretton Woods institutions’ standard solutions for dealing with financial crises, including structural separation and privatization of post banks, began to be challenged, in particular the assumption on market self-regulation. Unfettered competition introduced too early in Latin America in postal markets was also argued to have had destructive effects (UPU, 2008). Generally, tools other than competition began to be promoted to develop financial inclusion, such as the carrot and stick approach of the US Community Reinvestment Act.

As a matter of fact, trust in many post offices as a financial service provider was demonstrated at times of crisis. In the United States, postal savings (which ceased to exist in 1967) were multiplied eight-fold during the great depression. The same pattern repeated itself in the Japanese, Russian and South-east Asian crisis. In the latest crisis, significant switches out of banks into postal accounts have taken place in France, Germany, Italy, Japan and Switzerland. Citizens often believe that their deposits are safer at a post office even when the postal financial institution no longer has a government guarantee, as is the case for example in the European Union, and despite the governments acting *de facto* as a guarantor to “too big to fail” banks.

¹⁰ See <http://www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf>

Further to the work on microfinance and exclusive market segmentation policies, awareness developed that, in a modern society, access to financial services was essential for citizenship and financial inclusion was a necessary tool to achieve the poverty reduction and growth of the Millennium Development Goals, as affirmed by the UN special advocate to the Secretary General on financial inclusion.

The 2002 Monterrey Consensus, the outcome of the UN International Conference on Financing for Development held on 18-22 March 2002 involving all major stakeholders, signaled the turning point for international development cooperation. Agreement was reached on aid commitments, including debt relief, fighting corruption, and policy coherence. The document embraces six areas of financing for development: mobilizing domestic and international financial resources, international trade, increasing international financial and technical cooperation, external debt relief and finally systemic issues, such as enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.

The UN Blue Book on financial inclusion for development (2006) took a cautious and pragmatic approach. It stated that different national circumstances may lead policy makers to give different answers as to how much intervention, what kind, where and when. It recommended that, if and when needed, regulatory frameworks should be built to allow all types of financial institutions to offer financial services to poor people. Policies should also be developed to broaden and strengthen financial system soundness, mitigate risk, reduce cost, enhance innovation and improve transparency.

Building inclusive finance meant access at a reasonable cost to a range of financial services within a sound and sustainable financial system with a diversity of providers, including a combination of private, non-profit and public providers. The main choices of policy options for governments were listed:

- allow only entrance of competent firms that wish to provide services to the poor or not;
- treat all providers the same way or allow preferential treatment;
- differentiate between valuable and counterproductive state aids;
- intervene through mandates or not; engage directly into financial services or not.

In parallel, the UPU developed its Nairobi Postal Strategy (2009-2012) to be implemented regionally in line with its mission, as stated in the preamble of its constitution: to stimulate the lasting development of efficient and accessible universal postal services of quality to facilitate communication between the inhabitants of the world. The strategy integrated the financial dimension. It was based on three axes: interconnection, development and governance – and three dimensions – physical, electronic and financial.

The sheer number of UPU and WSBI initiatives, as well as private initiatives, such as those of the International Post Bank Council of Lafferty Group whose members are decision-makers in postal financial institutions, shows a growing interest in the leveraging of the potential of postal networks for financial services delivery. Postal financial institutions, both double bottom line banks and non-banking financial services institutions, should be able to play a full part in the reshaping of the international financial system and its regulation.

3.4. Examples of recent institutional developments of postal financial services

Evolutionary developments include that of the Swiss and French Posts. Both benefitted from a major migration from banks at the time of the financial crisis. The Swiss Post does not comprise a bank but a specialized financial institution with public limited company status, Postbank, now falling under the supervision of the financial services authority. Attempts to switch to full banking status might not be supported by citizens. PostFinance is not registered as a credit institution. It manages 2.5 million accounts with over 60% of retail payments in a particularly competitive market. Its payment services fall under a universal service obligation.

As regards the French post, its financial arm was turned into a double bottom line bank in 2006, thus allowing it to offer loans (not corporate loans).

Korea Post has swiftly grown its traditional model of payment, savings and life assurance into an integrated multi-channel network delivering both its own products (deposits increasing by 225% in four years) and those resulting from partnerships. It has now 12 million individual customers, (i.e. one Korean out of four), and 170,000 business customers. Its clientele base is predominantly among the over-forties and the rural and small city dwellers (2/3 for each category) owing to its geographical base in contrast to banks of which 80% of branches are in large cities. The one stop finance service is provided through 147 partnerships.

Besides these evolutionary developments, there were also radical changes (summary table in annex).¹¹

The Bangladesh Post, a least developed country in the land of microfinance, as part of the “Digital Bangladesh” policy obtained from the regulator through the post office (amendment) Act (2010), the right to provide money transfer, banking and insurance services, thus enabling it to lead a mobile payment consortium. Its mobile money transfer service and smartcard have already been winning propositions in meeting the needs of the rural migrants and the large majority of the unbanked. The next stage will deal with micro insurance and micro banking.

Poste Italiane, a traditional, bureaucratic and previously ill-managed organization, went through a radical change process enabled by its 1998-2002 business plan under the leadership of its then CEO, Corrado Passera, who developed a business plan supported by all the stakeholders, including government departments, the Bank of Italy and the staff. Staff support was greatly facilitated by its board’s decision to take a significant cut in salary in view of the dismal state of affairs. BancoPosta, initially a division and then a business unit of Poste Italiane, was allowed in 2001 to manage its own accounts through a specific regulatory framework, but not to manufacture financial services other than its traditional range (savings, government payments). The service proposition was transformed through integrated multichannel delivery and a set of partnerships with specialist financial services providers. In a developed market but still relatively under-banked, 6 million new accounts were opened and new products delivered in partnership, with a major contribution from investment products wrapped in life assurance. Financial services make a major contribution to Poste Italiane’s profits. The customer base includes a sizeable share of the social benefits claimants and migrants’ market. As a result of this U-turn, Poste Italiane has been and is due to be

¹¹ UPU and Afi (Bill and Melinda Gates Alliance for financial Inclusion) workshops on financial inclusion through posts held in the UPU, Bern, on 9-10 November 2009, 23 April 2010 and 31 October-1 November 2011. <http://postfi.me>

involved in a number of postal change management projects, including possibly the sizeable modernization project of Russia Post.

The creation of Kiwi Bank, in 2002, a fully-fledged bank (a 100% subsidiary of the state-owned New Zealand Post Office) was a political decision from the Alliance coalition in response to citizens' discontent with foreign ownership of the banking sector and closures of branches in non-urban areas. Its branches are based in post office counters and franchises. It is highly innovative, particularly in multiple channel delivery, and was one of the first banks in the region to develop mobile banking. Kiwi Bank has been an immediate success and keeps on growing. It broke even at the end of its third year and has been generating significant profits ever since. It has now 700,000 customers, which is remarkable for a small country. Kiwi Bank was allowed to move into commercial loans and a life assurance company has been added. It is making a substantial contribution to NZ post revenues. Throughout the crisis, it has been the only NZ Post business generating a profit, thus ensuring the postal network sustainability.

As early as 2000, the decision to corporatize the South African postal financial institution, Postbank, was made within the context of black empowerment and reduction in the financial and digital divide. The existing financial institution was recapitalized in 2002, the network outreach increased through state investment in post office real estate and IT network. The Mzansi products were launched as a basic account and also as a money order both by banks and the post office. Thus an extra 2.5 million transaction Mzansi accounts were opened in three years mainly with the unbanked to which were added another million social security accounts in 1999. The priority of South African Post Office has been clearly set as "universal service" versus "liberalization". The corporatization process of Postbank as a fully-fledged bank has been delayed, owing to numerous hurdles including a serious hacking incident.

Namibia, a sparsely populated country with 2 million inhabitants, 49% of which is unbanked, started leveraging its relatively dense postal network three years ago (132 post offices to which were added 196 merchants). It developed a smartcard combined with biometric identification enabling secure transactions even where communication infrastructures are poor or nonexistent... Already 400,000 Namibians have used the card and an additional 150,000 have opened an account.

As a result of the traumatic post-independence years and the Russian crisis in the late 1990s, the Kazak government acknowledged both the demise of the Post that had had public enterprise status since 1995 and the role it should have in the financial stabilization and modernization of the Kazak economy, particularly in the rural parts where there was no bank presence. This was a major challenge since Kazakhstan is the largest land-locked country in the world. Postal development was included as a project in the 1999-2002 modernization program and the successive government plans. The Post gradually increased its product range through new licenses and developed simultaneously its agency activities (deposits, transfer agent, broker and dealer). Ten years after its creation, it had opened 4.5 million savings accounts for one-third of the Kazak population.

In Brazil, Bradesco, the largest *bancassurer* in Latin America, won initially the highest bid (150 million USD contribution to capacity building in network automation and training) to become the exclusive partner of Correios under the brand name of Banco Postal. This was the result of a concerted action at government and central-bank level to develop financial inclusion, while guaranteeing the stability and integrity of the financial system. Priority was given to the offering of basic financial services in un(der) banked communities. The legal

basis was a banking correspondence law (1999) by which non-financial agents can contract with a financial institution to collect savings, receive and transfer request for loans and credit card applications, execute payments, bills, social security, deposits, transfers and withdrawals. The bid was authorized in 2001. In 2010, more than 10 million previously unbanked citizens had bank accounts. The second tender was won by Banco di Brasil on the basis of a goodwill, for an amount significantly higher than previously.

The success of Postal Savings Bank of China (PSBC) is but remarkable. One in three Chinese people is a client of PSBC that has 893 million accounts and 475 million individual clients. Its customers are mostly students, self-employed businessmen, migrant workers and pension recipients. Created in 1986, it is now the fourth bank in China with assets amounting to 500 billion USD. It developed gradually from a post office traditional range delivering treasury bonds, payroll and pension payments to a sophisticated intermediary leading in inter-bank deposit. A fully fledged bank, it must also meet social objectives:

- to build the retail network by setting up new banking outlets in areas with low service coverage by financial institutions, thus gradually reducing the number of villages without access to financial services, and supporting banks in reconstructing their outlets on the basis of multi-service networks;
- to speed up product and service innovation through click and mortar integrated delivery channels including telephone and Internet;
- to develop the intermediary business, owing to shrinking interest margins on savings;
- to fulfill social responsibilities, improve people's livelihood and promote growth by supporting rural finance, (micro and small-medium enterprises and green developments)

The speed with which it built its small business portfolio is a testimony to its huge potential. Only two years after starting offering micro loans to farmers and small businesses, it had disbursed 5.5 million loans averaging 6,000 USD for farmers and 12,000 USD for small businesses. The interest income of retail credit was the biggest income of the network.

4. Lessons and questions arising

Is it possible to identify a number of common features from a quick look at such successful new developments?

After the Reagan/Thatcher all-market era, the Monterrey Consensus around financial inclusion, and more recently micro-small and medium enterprise (MSME) trade facilitation, acted as major drivers for the development of postal financial services. It is to be noted that in the new cases describing radical changes, the postal financial institutions have remained up-to-now government-owned. Only exception, Poste Italiane is due to sell 40% of its shares in an initial public offering.

Postal financial services reforms were initiated and driven by the government departments in a concerted cross-functional approach. They involved the post, the central bank, supervisory/regulatory bodies, the postal operator and those responsible for development through social, infrastructure, and trade policies. The purpose was to leverage the postal network to provide access to basic financial and most often government and social security services for un(der) banked and MSMEs. Thus, the postal element was not defined in narrow terms but in broad terms and included the virtual dimension and last mile delivery. *De facto* or *de jure*, basic financial services had to be offered on a universal basis or were targeted to the un-banked in rural and underprivileged areas. Their scope was defined in law. As a result, the postal reforms were worked out in conjunction with the other public policies: financial depth, soundness and stability, access to government services, fight against poverty and digital divide, trade facilitation of micro and small and medium enterprises. In all cases, the changes were guided by an overall strategy integrated into the postal public mission.

Generally the clientele base is skewed towards the rural and less well-off population, thus reflecting the inclusive policy of the posts. The solutions were tailor-made to each country - no one-fits-all solutions- , owned by the stakeholders and scalable with a three-five year dynamic roadmap regularly assessed for progress and reviewed. Exacting intermediary objectives were set. In several of these ventures, millions of previously un(der)banked citizens gained access to basic financial services, starting with payments and followed by account services.

Commercial freedom along with ownership and accountability by staff was the first key success factor. It required significant investments in recruitment and training at all levels. The second necessary condition was the connectivity of the network and the equipment of each post office with ICT-based technology. The third condition was real-time centralized management of the cash flow and liquidity functions with optimization of the cash logistics at post office level.

This required significant investments by governments and bilateral/multilateral donors, up to tens of millions of dollars (an estimated 500 million USD alone for the proposed Russian network up-grading and development of the IT platform).

The degree of integration of postal accounts into the postal financial institution structure with ownership of the client database (Anson and Toledano, 2011) played an important role and impacted the profitability or even sustainability of the venture. The case of Brazil is an exception and has been tested through the attribution of the partnership to another bank, the existing clientele base remaining the property of the previous partner unless customers choose to transfer their accounts and other financial services to the new venture delivered

also through the post office premises. As a result, most customers have stayed with the first partner bank that has opened branches where the demand was high. But new unbanked citizens keep opening accounts through the post and a joint venture with Banco di Brasil is under study.

An additional venture of these new developments is that the multi-dimensional postal network was consistently seen as an asset to leverage, not a liability, and also as a portal for citizens, MSMEs, and governments. It enabled integrated click telephone and mortar delivery of an affordable mass offering.

But, as a reflection of the specific situation in each country (government policy, regulation, institutional arrangements, development modes on a sole or partnering basis) the financial services propositions differ and show high idiosyncratic features.

Regulation was adapted to enable greater inclusion in function of policies and needs. In Bangladesh, the central bank allowed the postal operator both to deliver payment and account services and to act as the leader in a mobile payment consortium, thus making the venture sustainable for the post. In Kazakhstan, equal access to the banks' retail payment clearing house was also given to the post, as a recognition of its vital role in payments. This had been also done in a much publicized case, in the UK (Cruikshank, 2000). Both in Kazakhstan and China, regulation developed in synchronization with policy and post's strategy, gradually introducing investments and loans. Interoperability with banks and social security institutions at national level were built from inception into the newly designed national payment system. Finally, in New Zealand and China, the postal financial services institution was set up as or became gradually a fully- fledged bank.

As regards institutional arrangements, the financial services arm can be a division of the post office acting as an agent of a banking partner as in Brazil, although the latter arrangement might soon evolve. In Italy, it is still a division of the post that receives deposits and enacts payment while concluding partnership agreements or setting up joint ventures with specialist financial services providers. A separate structure, with restricted bank status, may be licensed by the central bank to deliver a limited range of financial services, most often not including loans, as in Switzerland. Normally this goes together with investments being limited to sovereign debt or infrastructure/public service projects as is the case in Asia where often postal financial institution collect funds but do not act as financial intermediaries. The bank may be a fully-fledged bank, such as in France (with restrictions only on corporate loans) or in China that used temporary partnerships as a learning tools. In Korea, at the other extreme, the post, still a part of the ministry, offers basic payment and accounts services but acts as a conduit to multiple private specialist partners.

Indeed, as underlined for Korea, the institutional arrangement, regulation and the partnering model are intimately linked to the strategy. In Brazil, for example the decision had been made not to set up an additional public bank. This translated into an exclusive partnership with a financial services institution. In China, the developments were often greenfield, but often also initiated through a learning partnership. Kazakhstan Post started by connecting social security payments with savings accounts. Regulation developed in full synchronization with the strategy, gradually adding investment and loan services. The Italian Post was refused permission to become a fully-fledged bank but was allowed to offer its own interoperable current accounts. It modernized government and payment services to cashless, upgraded its direct offer through the phone and the Internet and acted as the leading electronic commerce provider through its portal and certification. It became a leading financial services innovator

and a coach to other post offices. It did so through alliances with ICT and financial services providers.

As regards the financial services propositions, they reflect partly the original savings, payment and government offer, but one transformed through the use of technology. This compares with the way Western Union transformed the traditional money orders into a tool enabling international remittances essentially by migrants. This modernization of money orders contributed greatly to money transfers amounting to more than foreign direct investment and aid combined. The postal offering was not only transformed but enlarged to investments and finally loan services. Recently, a new trend appeared linked to the re-development by posts of own payment services as part of their electronic commerce offer. Whether the payment and other services should adopt the banking model is an on-going debate.

However, in particular with the demonstrated success of alternative payment services such as international remittances and M-Pesa, the mobile payment service provider in Kenya, an official of the Central Bank of Namibia commented: “Unbanked people want access to financial services that add value to their lives, and first of all to distance payments. The first priority of regulators aiming at enabling financial inclusion is therefore to differentiate the payment system from the present banking system and to create domestic systems that are innovative, reliable, secure, affordable and accessible to all”¹².

Conclusion

Postal financial services institutions play a major role in access to finance and other public policies, e.g. trade facilitation and delivery of government services. However, there is little hard data and research evidence to argue this case with policy-makers and enable postal financial services institutions to play a full part in the reshaping of the international financial system and its regulation. Indeed, in the same way as the postal network was a major instrument for the development of financial inclusion in the 19th and 20th centuries and a great innovator through the combined use of technology and physical access through the network, a number of emerging and developing countries are now leading in innovation and sheer market size, thus mirroring the changes in geopolitics.

¹² See S di Souza

Annex : Examples of countries where radical changes in the way postal financial services are delivered. Data gathered from information presented at UPU and AFI (Bill and Melinda Gates Alliance for financial Inclusion) workshops on financial inclusion through posts held in the UPU, Bern, on 9-10 November 2009, 23 April 2010 and 31 October-1 November 2011. <http://postfi.me>

Country	Bangladesh	Brazil	China	Italy
Name of Postal operator	Bangladesh Post	Correios	China Post	Poste Italiana
Name	As above	Banco Postal brand	Postal Savings Bank of China	Postabanca business
Status	Department within post	Bank agency of Banco di Brasil	Fully-fledged bank	Business unit
Website	www.bangladeshpost.gov.bd/	www.correios.com.br/eng/	www.chinapost.com.cn/36/	www.posteitaliana.it/
population	161 million	191 million	1.351 million	59 million
development (WorldBank)	low income	upper middle income	Upper middle income	high income
% 15 year with bank account (WB)	40%	57%	64%	71%
% account holder in region (WB)	33%	57%	55%	
% account holders /development level (WB)	24%	57%	57%	90%
Modernisation kick off	2010	2002	1986 and 2006	1998
Key supervisor	Central Bank	Central Bank	Party + Banking Regulatory Com.	Gov. + Bank of Ita
Partnership / Stand alone	Leading mobile money consortium	Tender Bradesco (2002), Banco do Brazil (2011)	Learning partnerships	with ICT and finan
Product-service range	Multiple channel delivery	Multiple channel delivery	Multiple channel delivery	Multiple channel
National / International	N + rural density	N + rural density	N + rural density	N + rural density
Social / Commercial	S + C	S + C	Commercial	S + C
Number of customers	not known	10 million	450 million clients 850 million accounts	6 million accounts
Key of success	"Digital Bangladesh" Mobile money transfer - smartcard	Partner investing and complementary	Exponential growth. Innovation. Internal educational process	PosteMobile. Leas commerce Social benefits holders a

Annex continued

Country	Kazakhstan	New Zealand	Namibia
Name of Postal operator	Kazakhstan Post (KP)	New Zealand Post	Nam Post
Name	As above	Kiwi Bank	NamPost Savings Bank
Status	Department	Fuly-fledged bank	Savings Bank and business unit
Website	www.kazpost.kz/en/	www.nzpost.co.nz/	www.nampost.com.na/
population	16 million	4.4 million	2.1 million
development (WorldBank)	upper middle income	high income	low middle income
% 15 year with bank account (WB)	42%	99%	51% (government source)
% account holder in region (WB)	42%		24%
% account holders /development level (WB)	57%	90.00%	28.00%
Modernisation kick off	1999	2002	2007
Key supervisor	National Bank	Multiple	Multiple
Partnership / Stand alone	Stand alone	Stand alone	
Product-service range	Multiple channel delivery	Multiple channel delivery	Multiple channel delivery
National / International	N + rural density	N + rural density	N + rural density
Social / Commercial	S + C	S + C + franchises	S + C
Number of customers	4,5 million accounts	700.000 clients	400.000 clients 150.000 accounts
Key of success	Combination of social security & pensions and accounts. Communication campaigns	National sentiment. Innovation	Trust, market research with the underbanked and technology (biometrics)

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Abstract

Post offices, inherited from the Industrial Revolution, were monolithic telephone and postal administrations. They were intimately linked to the fabric of nations and made significant contributions to state finances. From the 1960s onwards, integrators, such as UPS and FEDEX, started offering end-to-end express services, thus challenging the postal monopoly in new high added value services. Gradually, the liberalization paradigm gained ground. Telecommunications and sometimes financial services were spun off from postal operations. More recently, new policies and priorities started to emerge especially on the development agenda where financial inclusion has become a top priority in the developing world. The question to be addressed is which role, if any, the posts play or could play in ensuring inclusion.

Despite an exceptionally scarce research in the field, this paper provides an overview of how these shifts in paradigm have affected postal policy, the postal financial services regulatory framework, the status of the organizations delivering those services and the offerings themselves in developing as well as in developed countries. After a research review, including the regulatory dimension, the paper focuses on how postal financial services institutions in their legal framework have developed bringing to the fore a panorama of a dozen of promising transformations of financial postal services in developing countries.

Keywords

development, financial inclusion, financial postal services, Universal Postal Union, telecommunications

JEL Classification

C65, H43, H55, Z18

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