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Role of Post Offices in Remittances and Financial Inclusion

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Historically post offices have played a role in the provision of remittances and basic financial services to low-income populations. As this function is being revived in an increasing number of developing and emerging countries, remittance services can be improved to better match financial inclusion goals. This paper describes the efforts being made in Sub-Saharan Africa to increase access to remittance services through post offices in small towns and rural areas, and discusses how this improved access could be used to develop crucial savings and other financial services for the poor. The outcomes are encouraging, though a number of constraints must be removed to fully realize the potential of posts in this area.

Introduction

Worldwide, posts have been active in the field of financial services since the 19th century. The first postal savings bank was created in 1861 in the United Kingdom, and an intergovernmental treaty on international postal money orders (MOs) was first signed by the member countries of the Universal Postal Union (UPU) in 1878. According to former U.S. President Taft, promoter of the United States Postal Savings System (in operation 1911–67), "it is to these poorer people in the United States that the Postal Banks will appeal and it will encourage the saving of money by them" (*New York Times*, June 23, 1910).

In spite of this history and a number of recent success stories, posts—for various reasons linked mainly to their somewhat outdated image—are often forgotten when it comes to designing and implementing financial sector development strategies or analyzing remittance markets. This paper attempts to present why posts should be seen as partners of choice in financial inclusion policies.

The Three Dimensions of the Postal Sector

The postal sector is often exclusively associated with mail. But a study carried out by Accenture (2010) for the United States Postal Service (USPS) showed that in 2008, nonmail businesses represented 63 percent of the total revenues of a group of 24 major posts from industrialized countries.[2] Nonmail activities include parcel services and logistics, e-commerce, telecommunications, government services, retail services, and financial services. This diversity of postal activity is linked to the fact that the postal network has three complementary dimensions, likely to become more fully integrated in the near future:

- *Physical locations.* Posts have the world's largest physical network, with a total of 660,000 post offices (UPU 2009). According to a World Bank (2006) study, there are almost twice as many post

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[2] The USPS and Japan Post have not been included in this group, to avoid influencing the statistics with two extreme situations. These two posts together have larger revenues ($75 and $200 billion, respectively) than the 24 others combined ($215 billion). Japan Post has 91 percent nonmail revenue, while the USPS has only 13 percent.

offices and postal agencies (500,000) as commercial bank branches (275,000) in the developing world.

- *Electronic networks*. Posts are connected through an electronic data interchange (EDI) network, which enables them to provide electronic MO services and facilitate trade (as airlines and customs agencies can also connect to the postal EDI network).
- *Financial services*. More than two-thirds of posts provide some sort of financial services (for example, MOs, savings, payment of invoices, and social benefits). Japan Post's financial arm today holds almost $1.9 trillion in savings,[3] which makes it one of the biggest financial institutions in the world.

The further integration of these three dimensions will enable more posts to provide bundled services in the areas of payments, trade, electronic services, and logistics.

Postal Financial Services: The Key to Financial Inclusion?

Many posts are leveraging their physical networks to further develop their financial services business, which generally consists of basic savings, payment, and remittance services. This no-frills approach, combined with posts' accessibility, has generated a high level of client trust in posts—trust that proved a key success factor during the recent global economic and financial crisis. In Switzerland, for example, total savings deposited by clients at posts increased 69 percent in two years, from 48.3 billion CHF on average in 2008 to 73.3 billion in 2009, and 81.6 billion in the first half of 2010 (PostFinance 2009, 2010).

Postal financial institutions tend to attract a high proportion of low- and middle-income customers. Many immigrants hold postal savings accounts and use them to remit money to their origin countries. One common attribute of postal financial services seems to be their high financial inclusion. For example:

- The French Post established a banking subsidiary, La Banque Postale (LBP), which has almost 10 million account holders, most of whom use LBP as their main bank. In contrast to accounts opened by classic banks, applications for LBP's Livret A, a personalized microsavings account, cannot be refused; these accounts offer free transactions from €1.50 (Kugemann 2009).
- Correios, the Brazilian postal operator, acts as an agent for Bradesco, a private bank. Together, they launched Banco Postal, a postal financial services branch, which leverages the post's physical network to promote access to financial services. From 2002 to 2010, Banco Postal brought basic savings accounts to 10 million citizens, most of whom did not previously hold bank accounts (Kugemann 2009).
- India Post, with its 155,000 post offices (139,000 of which are located in rural areas), has adopted a multiagent banking approach: it distributes financial services on behalf of several partner institutions thus acting as an agent for each of them, in addition to the development of its own savings accounts. Either directly or through various partnerships, 220 million savings accounts had been opened with India Post by the end of 2009 (Kugemann 2009). The post is "the largest micro insurance player in the $13 billion Indian life insurance game" (India Knowledge Wharton 2011), and also processes an average of 100 million MOs per year, most of them migrants' remittances.

Surveying stories of success in the field of postal financial services, two key factors can be identified:

- When establishing a financial services branch, the relation between the banking unit and the postal network has to be maintained. The posts' biggest and most important asset is their physical network, and postal banks that focus only on larger offices or urban areas have faced difficulties. Mali

[3] Japan Post Bank, March 2010 (end of fiscal year).

provides a typical example: the post's financial services branch, which already faced difficulties, was separated from its postal branch to create the Banque de l'Habitat du Mali (BHM) in 1996. The BHM now has only seven branches and was on the brink of bankruptcy in 2010 before being bailed out by the government. The Mali postal service, with 83 branches, now struggles to survive on a mail business that has never taken off; meanwhile, it provides limited financial services (only MOs).

- Posts are depended on for payments (for example, invoice payments and social benefits) and remittances. According to UPU research (Ansón and Toledano 2010), 1.5 billion people worldwide currently go to post offices for these types of transactions, but only 400 million have accounts. One strategy, adopted by posts in a number of countries, is to use cash-based services as an introductory product to account-based services and savings. Following that model, the 1.1 billion people who use posts to access certain financial services without an account could potentially move from informal to formal savings.

Sub-Saharan Africa: A Field of Opportunities for Posts

There are currently 14,412 post offices in Sub-Saharan Africa (UPU 2008), compared with about 10,000 bank branches.[4] A UPU study (Ansón and Toledano 2008) showed that only 19 percent of post offices were located in the three biggest cities, leaving more than 80 percent of post offices in the region's many small and medium-sized towns and rural areas, where 82.5 percent of the population lives. In contrast, banks focus on cities with denser populations believed to be more interested in financial services.

The experience of Brazil shows that focusing on rural areas and small and medium-sized towns, where formal banking has been unavailable, can be a winning strategy for posts. At the start of the Banco Postal project, between 2002 and 2006, agencies were established primarily in these locations. This approach proved successful in terms of profits and also benefitted the more traditional postal business with a 100 percent increase in foot traffic across rural post offices where Banco Postal services were available (PlaNet Finance 2010). Banco Postal had a tremendous impact in terms of financial inclusion (Ansón and Bosch Gual 2008): half of the total savings of Banco Postal were held in 50 percent of the poorest municipalities, which accounted for less than 30 percent of the population. Also, 25 percent of Banco Postal's loans and microloans were granted in 20 percent of the poorest municipalities, where only 10 percent of the population lived. This means that savings collections in these communities have been redirected through small loans in favor of local economic development.

The UPU is currently experimenting with a similar approach in western, eastern, and central Africa. Since 2006, the UPU, with the support of the French Post, has helped 20 Sub-Saharan countries develop money-transfer services. Because of limited financial resources, postal operators in these African countries initially focused on larger cities where more business was expected. This, however, had mixed results, as the services offered faced competition from both external and internal sources. Clients in urban areas have many options for transferring money. First, in larger cities, the total number of bank branches exceeds the number of post offices. Furthermore, money-transfer companies have preexisting relationships not only with banks but also with a wide array of shops and small businesses. Meanwhile, most posts in Sub-Saharan Africa have signed agreements with various money-transfer partners, such as Western Union, MoneyGram, Money Express, Coinstar, and Ria. A recent study (Orozco 2009) commissioned by the International Fund for Agricultural Development (IFAD) states "Western Union or

[4] This figure is estimated at 6,000 by the World Bank (2006). It is estimated that there are five bank branches for 100,000 adults in the urban areas of Sub-Saharan Africa, compared with 0.5 in rural areas (CGAP 2009). These figures, combined with 2009 data of the United Nations Department of Economic and Social Affairs, Population Division, 2009, translate to 9,250 urban bank branches and 1,565 rural bank branches, for a total of 10,815 branches.

MoneyGram are, by far, the most significant market players." Both companies require "that agents sign exclusivity arrangements. These agreements effectively 'lock' more than half of all available payout locations." They cover post offices in locations such as small towns and rural areas, even though these companies are much less likely to deploy the service there. "Because they apply to all agents—banks, foreign exchange bureaus and post offices, among others—an effective control of 65 per cent of the authorized payout market results." This situation limits competition, keeps prices artificially high, and results in posts not being able to develop their own electronic MO service.

To address these issues, the UPU partnered with the French Post and IFAD to launch a pilot program in six West African countries (Benin, Burkina Faso, Mali, Mauritania, Niger, and Senegal). The program's objective was to develop a postal money-transfer service, called MEI,[5] in the rural areas and smaller towns of these countries. The 6 countries have a total of 510 post offices, 404 (79 percent) of which are located in rural areas.[6] In 2009 the project connected 355 rural post offices, either directly by Internet connection (when available), or through the establishment of call centers and the use of phones or faxes. Under the program, MOs were paid within two days at most, and much quicker (in a few minutes) if both the sending and the paying post offices were online. Within the framework of the project, procedures were also set up to facilitate cash management, and a number of joint marketing activities were conducted among the six participating countries and the French Post. The pricing of the services is listed in table 1.

An analysis of the initial results has been carried out in two countries, Burkina Faso and Mali. The resulting market share is still not significant (for Burkina Faso, it is estimated at 2.5 percent of the total market in 2009 and should surpass 5 percent in 2010; for Mali, it is less than 1 percent[7]). But the share has doubled between 2009 and 2010 (UPU 2010), although from a low base, and rural post offices have started issuing and receiving MOs. Furthermore, Gabon, which attracts a number of West African immigrants, is acting as a development engine within the region, issuing a significant number of MOs to France, the pilot countries, and other African countries (most notably, Cameroon and Togo).[8] This shows that an operator that has sufficiently developed its capacities and has good leadership and governance capability can seize remittance development opportunities.

Table 1. Pricing of remittance services, pilot program in West Africa

France to Sub-Saharan Africa: Range in euros (as of December 2009)	Cost in euros	Cost in % at maximum of the range
0–100	8	8
100.01–200	12	6
200.01–300	15	5
300.01–750	20.5	3
750.01–1,500	27	2
More than 1,500	35	n.a.

[5] *Mandat express international* ("international money order").
[6] In the context of this project, rural areas have been defined as areas outside the two to five major towns of each country.
[7] Computed with data from World Bank (2010).
[8] In Gabon, the market share of MEI, compared with the total remittance outflows from Gabon, is estimated at 5.6 percent in 2009 (computed with data from the World Bank [2010]).

Between Sub-Saharan African countries, in euros (as of August 2010)	Cost in euros	Cost in % at maximum of the range	Cost in % of annual per capita income in Niger[9]	Cost in % of annual per capita income in Senegal
0–152	6	4.01	2.41	0.81
152–305	9	3.00	3.62	1.21
305–457	12	2.67	4.82	1.62
457–610	15	2.50	6.03	2.02
610–762	18	2.40	7.23	2.42
762–915	21	2.33	8.44	2.83
915–1,067	24	2.29	9.64	3.23
1,067–1,220	27	2.25	10.85	3.63
1,220–1,372	30	2.22	12.06	4.04
1,372–1,524	34	2.20	13.66	4.58

Source: UPU, 2009.
n.a. = not applicable.

In Burkina Faso, we used data from 2009[10] and separated the issues and payments of international MOs between the two biggest cities, Ouagadougou and Bobo-Dioulasso (urban), and the rest of the country (which for this analysis can be considered rural). The results are summarized in table 2.

Table 2. Distribution of Money Order flows and amounts, Burkina Faso

Ouagadougou - Bobo-Dioulasso				Rest of the country			
M.O. sent / Total		M.O. paid / Total		M.O. sent / Total		M.O. paid / Total	
Number of M.O.	Amount	Number of M.O.	Amount	Number of M.O.	Amount	Number of M.O.	Amount
88%	92%	54%	43%	12%	8%	46%	57%
	Average amount (EUR)		Average amount (EUR)		Average amount (EUR)		Average amount (EUR)
	368		286		227		446

Source : UPU and SONAPOST, 2009.
Note: M.O. = money order.

A number of interesting results appear:[11]

- Around 90 percent of international MOs sent to other countries are concentrated in the two biggest cities of Burkina Faso.
- "Rural" areas (that is, those outside major cities) account for 46 percent of the number of MOs paid and 57 percent of the total amount paid.
- The average amount sent in urban areas (€368) is greater than that sent in rural areas (€227). For those amounts, the commission paid by clients is, respectively, 3.26 percent and 3.96 percent of the amount sent.

[9] Niger has the lowest annual per capita income of the countries participating in the UPU–IFAD project, at €249; Senegal has the highest, at €743 EUR (World Bank 2008).
[10] SONAPOST (Burkina Faso's national postal organization) internal data, 2010.
[11] It should be noted that these results are based on a low market share—2.5 percent in 2009 and over 5 percent for the first five months of 2010 (estimated)—and therefore may not be statistically significant.

- The average amount paid in urban areas (€286) is much lower than that paid in rural areas (€446). For those amounts, the commission paid by clients in the sending countries is, respectively, 5.24 percent and 4.6 percent of the amount sent (if from France), or 3.15 percent and 2.69 percent (if from any Sub-Saharan African country).

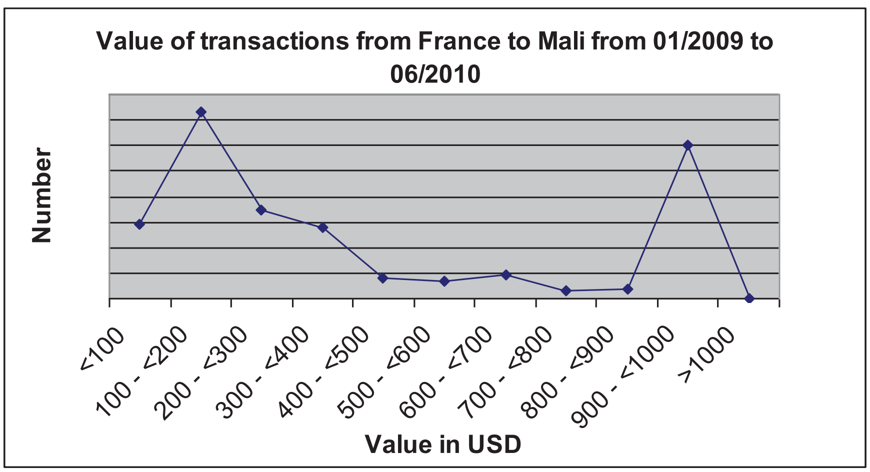
Other results communicated by the Post of Burkina Faso (SONAPOST) indicate that:

- Eighty percent of MOs sent from Burkina Faso are paid in France. This reflects the fact that many outgoing payments involve the settlement of small-value transactions or tuition fees for students in France. This figure would be radically different if Burkina Faso were able to exchange MOs with Côte d'Ivoire, where it is estimated that about 3.5 million Burkinabé are working (Conseil Supérieur des Burkinabè de l'étranger 2008). But due to internal problems in the post of Côte d'Ivoire, these two countries have ceased their exchanges.

- Fifty-nine percent of MOs paid in Burkina Faso are sent from Sub-Saharan Africa, and the remaining 41 percent from France. For south-to-south MOs, the biggest partner is Gabon, where the income per capita is much higher than in Burkina Faso (€6,859, compared with €357; World Bank 2008).

In Mali, where the potential is high in view of massive emigration, another analysis (UPU Postal Technology Centre 2010) was performed for the amounts paid on the France-Mali corridor (see figure 1).

Figure 1. Value of transactions from France to Mali, January 2009–June 2010



Source: UPU, 2010.

Figure 1 provides a clearer profile of the posts' two very different client types:

- The low-end clients account for most of the transfers (that is, almost two-thirds of MOs paid) and receive amounts between \$35 and \$400, with the median at \$252.
- On the other end of the spectrum, 23 percent of the amounts paid correspond to the maximum amount that can be sent between France and Mali, that is, \$960. Further research needs to be conducted on the profile of these clients, although information collected in Gabon suggests that small traders and businessmen account for these transfers. If these operations involve small commercial activities, the development of cash-to-account payments might prove useful to this target group. Pension payments could be another area of potential. But as mentioned previously, Mali Post no longer has accounts, as its financial branches were separated from its postal branches in 1996. In contrast to the five other countries of the project, which all provide postal savings accounts, the development of account-based services in Mali will constitute a substantial challenge.

Barriers to Sound Development of Postal Financial Services in Sub-Saharan Africa

The intervention of the UPU and IFAD in the rural areas of six West African countries is the consequence of market failure. No private actor so far has been able to fully address the needs of the rural populations in Sub-Saharan Africa in terms of money transfers and savings. Postal operators, with experience in financial services and an extensive presence, are well positioned to fulfill the needs of these populations. But to develop high-quality and affordable services for the poor, posts have to overcome various constraints in terms of infrastructure, internal organization, and external environment.

Infrastructure:

- *Communications*. Internet access and telephone coverage is not ensured in all rural areas of Sub-Saharan Africa. A 2008 study by the International Telecommunication Union (ITU) estimated that "in Sub-Saharan Africa, only 12 percent of localities had [fixed line] telephone access and 1.4 percent had Internet access." Moreover, coverage by a mobile cellular signal in rural areas of Africa was estimated as reaching 52 percent of the population by the end of 2008 (ITU 2010).
- *Equipment*. To be operational, rural post offices need computer equipment or, at the very least, mobile or landline phones or faxes. Therefore, national or regional call centers have to be established where an Internet connection is available and all operations are centralized.
- *Electricity*. Access to electricity is an issue throughout Sub-Saharan Africa. For postal needs, however, basic generators are enough to provide the relevant services.

Internal organization:

- *Training*. One key to the sound development of postal financial services is adequate staff training.
- *Customer orientation*. Most postal operators are public corporations or government departments. Postal staff is therefore not always customer oriented due to a lack of training, which has a negative impact on the quality of service.
- *Computer literacy*. A number of postal employees in Sub-Saharan Africa have never used computers. Computer skills are, however, imperative in providing services that fit client needs today.
- *Marketing expertise*. In the past, postal products were commodities, and clients who needed postal services had only one place to go. This has radically changed, however; current trends of diversification and greater competition require postal operators to differentiate their offers and promote their services. Market research, conducted too rarely, needs to be undertaken to identify the most effective avenues of future action.
- *Partnerships*. A lack of capacity building in this area can lead postal operators to make ineffective decisions when choosing partners. In negotiating their remuneration and general conditions with partners, including banks and telecommunication operators, posts are often losers, as they do not know their own worth.
- *Cost accounting, audit and control*. These functions are already in place across most posts, but the evolution of operations (new products, computerization, new accounting systems, and so on) has in some cases been quicker than the evolution of control methods.
- *Back offices*. Posts' IT, accounting, and cash management systems are in some cases very basic and need to be further refined to ensure the provision of quality service.
- *Availability of cash in rural post offices*. Most countries with account-based financial services, domestic payment and remittance services, and social security and utilities payment facilities are better positioned to adequately manage cash. The collection of savings by postal institutions can facilitate cash management for remittances; this highlights, once again, how essential it is to link remittances and savings.

External environment:

- For very small remittances, the application of anti–money laundering regulations is not proportionate to the risk raised by such transactions and hinders the reduction of remittance costs. Therefore, *de minimis* rules could be applied.
- Most posts are not connected to national clearing and settlement systems, which considerably limits their efficiency and development opportunities.[12]
- Certain posts are prevented from collecting savings, although this service is a natural complement to remittance services.

[12] National clearing and settlement systems are often limited to banks. Connecting postal financial institutions to these systems does not mean that posts should obtain full banking licences. Nonbank financial institutions, when adequately supervised, should be allowed to access these systems, however.

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