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A CASE ANALYSIS OF DIFFERENT MODELS OF POSTAL FINANCIAL INCLUSION IN SELECT COUNTRIES

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Abstract

The role of post offices in financial inclusion is the current hot debate in the policy making circuits. India post recently has been granted the license to be a payment bank. But the thought of utilizing the wide network of post offices for effective distribution of financial services to the unreached has been in talks for long. Worldwide also there are a lot of success stories where the ordinary post converted in to a financial player yielded desired results in getting rid of financial exclusion. Postal financial inclusion brings people excluded from the formal financial sector into a financial system using the postal network as a gateway. Either the Post offers its own financial services or partners with a financial institution to give access to such services.With more than 600,000 post offices in the world, the postal presence in rural areas is unmatched by any other network. Several Posts are already key players in financial inclusion: the Postal Savings Bank of China has 475 million customers; Brazil's Correios opened 11 million accounts in 10 years through a partnership with a bank; Namibia Post banks 20% of the country's total population; India Post holds 240 million savings accounts and covers risks for more than 20 million people through its postal life insurance policy; Papua New Guinea Post offers a mobile wallet and is one of three main national competitors for mobile financial services;. This paper attempts to analyse the different models of postal financial inclusion as adopted in select countries and bring out the merits and demerits involved in the adoption of such model.

Key Words:Financial Inclusion Financial Exclusion, Post Bank, Postal Financial Inclusion

INTRODUCTION:

Defining financial inclusion is considered crucial from the viewpoint of developing a conceptual framework and identifying the underlying factors that lead to low level of access to the financial system.. Financial inclusion is generally defined in terms of exclusion from the financial system. A target group is considered as financially excluded if they do not have access to mainstream formal financial services such as banking accounts, credit cards, insurance, payment services, etc.

Government of India had constituted a committee in 2006 under the chairmanship of Dr. C. Rangarajan to study the pattern of exclusion from access to financial services across region, gender and occupational structure and to identify the barriers confronted by vulnerable groups in accessing credit and financial services and recommend the steps needed for financial inclusion. The committee submitted its report in January 2008. The committee has given a working definition of financial inclusion as;

> ***"Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."***

Postal financial inclusion brings people excluded from the formal financial sector into a financial system using the postal network as a gateway. Either the Post offers its own financial services or partners with a financial institution to give access to such services.

With more than 600,000 post offices in the world, the postal presence in rural areas is unmatched by any other network. Several Posts are already key players in financial inclusion: the Postal Savings Bank of China has 475 million customers; Brazil's Correios opened 11 million accounts in 10 years through a partnership with a bank; Namibia Post banks 20% of the country's total population; India Post holds 240 million savings accounts and covers risks for more than 20 million people through its postal life insurance policy; Papua New Guinea Post offers a mobile wallet and is one of three main national competitors for mobile financial services.

REVEIW OF LITERATURE

A study by Indian Institute of Banking & Finance (IIBF) says, "Financial inclusion is delivery of banking services at an affordable cost ('no frills' accounts,) to the vast sections of disadvantaged and low income group. Unrestrained access to public goods and services is the sine qua non of an open and efficient society"

S S Tarapore in his article –'Why not a postal bank of India'; Business Line April 17 2014, says "India Post is pre-eminently suited for a bank license. Trying to achieve financial inclusion without a central role for India Post would be like staging *Hamlet* without the Prince of Denmark." He concludes with a positive note –"The new government should undertake a concerted drive to remove the conceptual cobwebs preventing the setting up of a Postal Bank, considering the great potential such a bank has for taking banking to the masses."

Charan Singh in his article – 'India post as a Banking Platform" observes that the post office need not convert in to a bank but can definitely play an important role in financial inclusion.

Alexandre Berthaud has conducted extensive surveys in various countries under the Universal Postal Union to understand the way Post Offices operate and work towards financial inclusion

OBECTIVE OF THE STUDY:

1. To understand and evaluate various models of Postal Financial Inclusion

RESEARCH METHODOLOGY

The paper has followed a Case Study method where in various caselets of Finncial Inclusion using Post Offices have been compiled and analysed to derive meaningful observations.

A Case Analysis Of Different Models Of Postal Financial Inclusion in Select Countries:

1. **Brazil**

Banco Postal, or Postal Bank, is a proprietary brand of the Brazilian Postal Service that designates its operation as a correspondent service for financial institutions by providing basic banking services all over the country. This service uses the service network of the Brazilian

Postal Service and Telegraph Company (ECT), and its purpose is to provide banking services by correspondence to sections of the population without regular access to the Financial System. On 2 January 2012, the Banco Postal service network was integrated into the MaisBB correspondence services, thus expanding the presence of Banco do Brasil to almost every municipality in the country.Through this partnership, Banco do Brasil is now present in 95% of Brazilian municipalities, including about 2,000 municipalities that were previously not covered by its bank branches.It now consists of the sales team comprising of 18,000 managers and service personnel in 6,261 service outlets.

2. **The Bangladesh Post Office: From Money Orders to Mobile Banking:**

The functions of the Post Office are categorised into three segments: (i) Postal Services; (ii) Agency Services; and, (iii) Financial Services. Postal services include letter post, parcels and other core mail services, while agency services include the Savings Bank, Savings Certificates and Postal Life Insurance operated by the Post on behalf of the Directorate of National Savings (DNS), under the Government. The "proprietary" financial services offered by Bangladesh Post comprise the new digital financial services: Mobile Money Order Service (or "Electronic Money Transfer Service"), Postal Cash Card, and Mobile Banking Service (or "Post e-Pay").

3. The Case of Poste Italiane: Italy stands out as the country where this transformation was the most spectacular, primarily thanks to Corrado Passera and Massimo Sarmi, successively at the helm of the Post since 1998. Under their direction, the Italian Post underwent a radical transformation in the space of 15 years: today, Poste Italiane is one of the most profitable and innovative Posts in the world. The diversification of the service offering, beyond letter post, is without question another key to the success of the Italian model. The Post has also set up a separate subsidiary to provide its own cash transport service. It launched its life insurance company, PosteVita, and acquired an airline for the rapid transport of mail from northern to southern Italy, operating charter flights during the day. In 2012, the group bought a bank to promote credit to SMEs in the southern Italy. The diversification of the offering enables the Post to benefit from economies of scope, in addition to the economies of scale created by the network. For example, the existence of financial services enabled the mobile telephony subsidiary, PosteMobile, to right away offer value-added services not available from com-petitors.

4. Kenya- The business model: hyper-cash merchant: PCK has opted for a model based on multiple partnerships, where the post office acts as a cash merchant for a vast number of diverse stakeholders. According to that model, the postal operator believes that the more contracts it signs, the more traffic it will receive in its offices, which will in turn increase its viability. The PCK cash merchant model is intended to provide financial services to both the unbanked and the underbanked nationwide, allowing them to have access to their key financial products closer to home by using the vast network of the Post. Using point of sale (POS) terminals, GSM mobile devices and postal outlets, customers can perform transactions through retail agents in a secure manner. The PCK has signed 320 partnerships through which it offers cash-in/cash-out services. The whole spectrum of financial service providers is represented among these partners, which include commercial banks, Postbank, microfinance banks, SACCOs, mobile network operators, regulated and non-regulated microfinance institutions, money transfer organizations, insurance companies, utility companies and government authorities responsible for social benefits and conditional cashtransfers. This is the cash merchant model at its best, and few countries have developed it to such an extent.

5. Namibia- The Business Model: A Modern Post Office Savings Bank: In the case of Namibia, the NPOSB has become an integral, and successful, component of NamPost. The NPOSB was created as a department within the South West African government, prior to Namibia's independence from South Africa. In 1992, after the incorporation of NamPost, the NPOSB was transformed into a strategic business unit within the Post Office. Since 1992, there have been significant changes to the structure and the financial service offering of the Post. In particular, the Post Office established Treasury services in 2003; and in 2006 the NPOSB introduced its innovative Smart Card, based on a biometric identification system. In 2010, NamPost entered the micro-lending business through its subsidiary, Post Fin. The Post Office therefore provides a wide range of modern financial services. It has employed a unique business model, which combines traditional postal financial services -such as domestic money transfers and bill payments – with electronic postal savings and micro-lending services targeted at the poor and rural population.

6.PapuaNewGuinea-The Business Model: Post PNG and Mobile SMK-Post PNG represents an interesting case of a postal-led mobile money service, especially as it was one of the first adopters of mobile technologies for financial services in PNG. Post PNG currently has a network of 37 post offices, and 4 post office agencies. It provides a range of postal services, and its financial service offering is comprised primarily of domestic money transfer services (SMK). It also provides office space for the operation of ANZ bank branches in two post officesPost PNG introduced its Mobile SMK service in July 2011, primarily to improve and modernize its existing SMK service and to take advantage of the increasing uptake of mobile phones and mobile technologies for financial services. Mobile SMK as a product is wholly-owned by Post PNG. It is not a business model based on partnerships, but one where the Post intended to offer the service directly by conducting all the activities in the mobile money value chain (see Appendix 3 for a description of the mobile money value chain). The Post purchased the license for the mobile money transaction platform from Telepin Software Corporation, a Canadian-based software firm, for roughly PGK6 million (~ US$ 2,400,000), which does not include annual maintenance costs and on-going fees. 18 This is a large investment considering that total revenues in 2011 were of PGK55 million (~US$ 22 million). The platform is hosted on the Digicel mobile network, and is currently available only to consumers with a Digicel phone.

The Emerging Model In India – Postal Payment Bank:

The India Post Payments Bank (IPPB) has been recently incorporated as a Public Limited Company under the Department of Posts with 100% GOI equity.

IPPB will offer demand deposits such as savings and current accounts upto a balance of Rs 1 Lac, digitally enabled payments and remittance services of all kinds between entities and individuals and also provide access to third party financial services such as insurance, mutual funds, pension, credit products, forex, and more, in partnership with insurance companies, mutual fund houses, pension providers, banks, international money transfer organisations, etc.

The four key features of IPPB are:

- Financial literacy
- Streamlining payments
- Financial inclusion**.**
- Ease of accessibility

DISCUSSION AND OBSERVATIONS

Based on the above analysis there emerge five main business models used by postal operators to participate in financial inclusion:

- Cash merchant for government and financial services providers
- Proprietary transactional financial services
- Partnership with a financial service provider
- Unlicensed postal financial services, and
- Licensed postal financial services

Benefits of operating under any of these models:

i. Willingness to foster financial inclusion
ii. Partnership arrangements allow the Post to share risk of investment, and obtain technological and network infrastructure and skills;
iii. Interoperability on mobile networks and ATM and POS network makes service easily accessible for clients;
iv. Good incentives provided to postal staff to promote new financial services.
v. Use of wide network for distribution of other financial products and services, such as insurance
vi. Leverage the large number of clients and wide network to become a key competitor in mobile financial services

Challenges faced by postal entities:

i. Weak organizational structure
ii. Lack of human resource skills and capabilities
iii. Limited financial resources and capacity
iv. Inadequate product development and marketing strategy
v. Inadequate internal systems and network connectivity
vi. Offline post offices raise inefficiency and cash management costs

CONCLUSION

Postal financial inclusion is enjoying a boom phase. After banks, postal operators and their postal financial subsidiaries are the world's second biggest contributor to financial inclusion.Today, one billion people use the postal sector for savings and deposit accounts, and more than 1.5 billion profit from basic transactional services through the Post. Posts own one of the largest physical networks in the world with 661,000 post offices worldwide – and an additional 1.4 million postmen going door-to-door daily – i.e. a potential of 2 million contact points. To be able to sustainably cater to the needs of excluded, low-income populations, however, Posts need to provide financial services at scale… and at minimal costs. Clients also have evolving needs and want to be able to use their financial services everywhere, at any time. Posts are therefore at a turning point: they need to adapt in order to remain relevant as providers of sustainable and inclusive financial products. They need to digitize their financial services, making them available on multiple delivery channels (mobile, card, Internet, ATMs, etc.), in addition to their physical post offices.

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