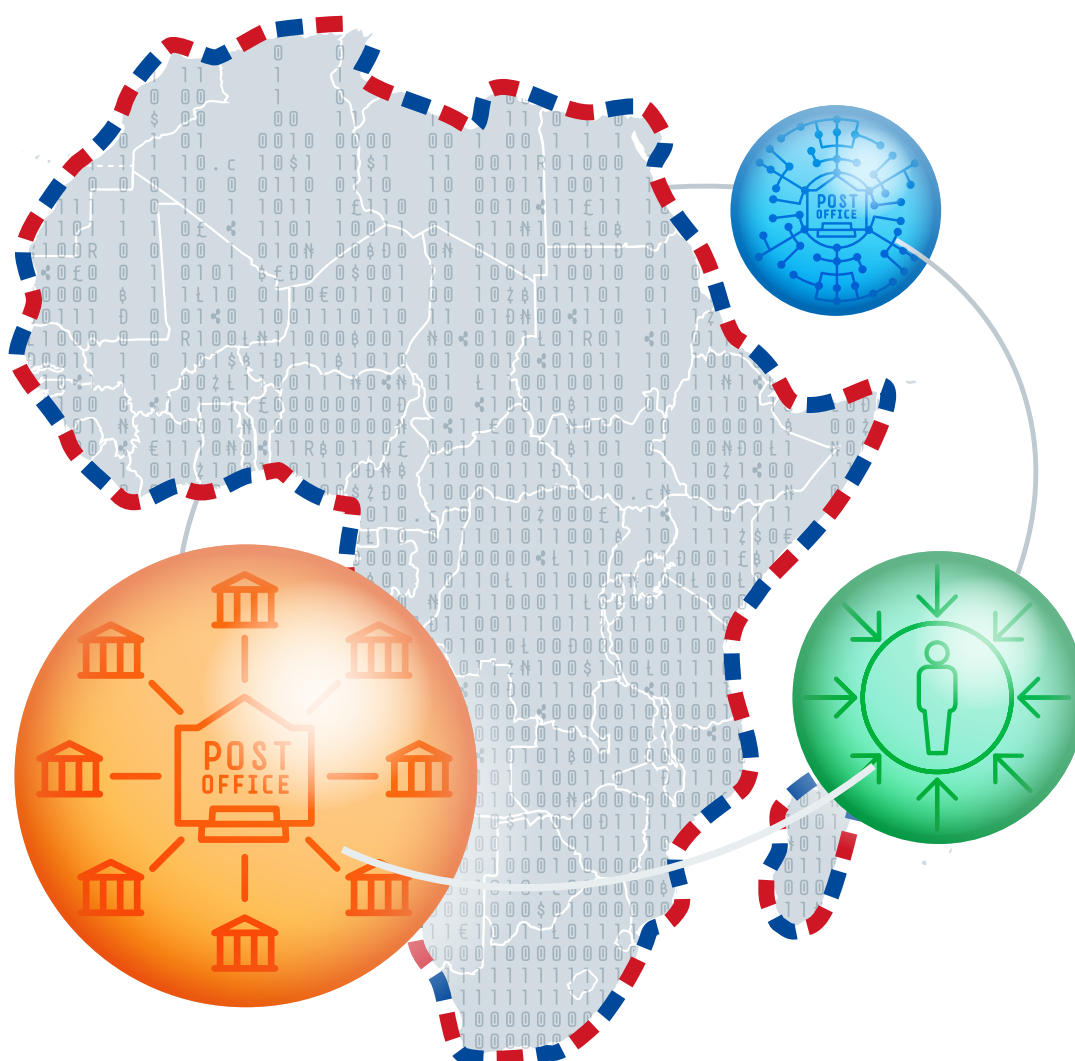


How post offices can leverage the impact of remittances

A set of working papers



How partnerships can leverage the outreach of post offices

This set of working papers results from the outcomes of the African Postal Financial Services Initiative (APFSI), a unique broad-based partnership led by the Financing Facility for Remittances (FFR) of the International Fund for Agricultural Development (IFAD), and bringing together the World Bank, the Universal Postal Union (UPU), the World Savings and Retail Banking Institute (WSBI), and the United Nations Capital Development Fund (UNCDF). The joint goal of this regional programme, completed in 2018, was to enhance competition in the African remittance marketplace through supporting and enabling African post offices in offering financial services. More specifically, it aimed at promoting a cheaper, faster, more convenient and more client-friendly transfer of remittances, particularly to rural areas, while fostering dialogue among stakeholders, regulators and policymakers. The APFSI programme was co-funded by the European Union (EU).

Further information is available at this link: www.ifad.org/en/apfsi



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ABBREVIATIONS AND ACRONYMS

APFSI	African Postal Financial Services Initiative
FI	financial institution
FFR	Financing Facility for Remittances
HR	human resources
ICT	information and communication technology
IFAD	International Fund for Agricultural Development
IFRS	International Financial Reporting Standards
JV	Joint Venture
MFI	microfinance institution
MTO	money transfer operator
NPO	national postal operator
RSP	Remittance Service Provider
SOP	standard operating procedure
SWIFT	Society for Worldwide Interbank Financial Telecommunication
UPS	uninterruptible power supply
USO	Universal Service Obligation

GLOSSARY

Postal terminology

National postal operator (NPO)	The incumbent organization or entity
Post or mail	Letters, postcards, printed matters, small packages and parcels
Postal service(s) or mail service	The organization or system for physical transport and logistics of post or mail items
Post or post office	Retail outlet accessible for the public for services provided by the NPO
Postal network	The chain of retail outlets used by the NPO
P.O. box	A uniquely addressable lockable box located on the premises of a post office and rented to the user for receipt of mail items
Postal money order	A money order is a service and messaging system provided, operated and owned by the NPO whereby the sender pays the amount plus a commission at the post office and upon notification the recipient picks up the money at a post office
Postal financial services Postal banking	A range of basic financial services accessible at post offices of which the distribution is organized by the NPO
Postbank	A brand or trademark of a licensed financial institution for financial services distributed by the NPO via post offices (alternative brands are: postfinance, postpay, postcash, etc.) Name of a financial institution whose origin stems from links with the NPO
Post office savings bank (POSB)	Historic agency agreement between the Minister of Finance and the Postmaster-General to (i) collect small deposits via post offices and (ii) invest those monies in the state's treasury. In several cases this evolved into a separate institution
Universal Service Obligation (USO)	The NPO's regulated duty to ensure a certain level of availability, accessibility and affordability to a basic range of postal services

Remittances terminology

First mile	Sender's side: colloquial term related to the distance of the sender to the point of access to transfer a remittance
Last mile	Recipient's side: colloquial term related to the final leg of the transfer of money to be collected by a recipient
Money transfer operator (MTO)	A licensed business entity that provides and organizes money transfer services between agents in the first mile and agents in the last mile



How partnerships can leverage the outreach of post offices

Building balanced partnerships between
Posts and banks¹

EXECUTIVE SUMMARY

This working paper explores the different types of business partnerships between national post operators and different financial institutions, which are designed to increase financial inclusivity as well as the revenue the Post and the market reach of the postal network.

In many cases, Posts have an ambition to establish their own Postbank services. Constraints or weaknesses in capital, technology and specific bank management skills turn such ambition into an illusion.

Partnerships offer an alternative. Partnerships with banks are neither new nor rare for Posts. In more than 80 countries worldwide partnerships exist. Posts have much more value to offer than a simple agency relationship. That is why this paper recommends the Posts assess the building blocks they offer when entering into a partnership. The value is not just cash-in, cash-out processing, but comes often with an existing network that has nationwide outreach, in rural areas where bank branches are not present. These networks often have a broader range of services, attracting large flows of visitors who have trust and confidence in the Post as an institution deeply rooted in the national culture and history.

Partnerships can come in various sizes and formats. This paper presents the models that occur most frequently. By examining the pros and cons of the various partnerships, this paper can aid Posts in determining the best model for moving forward into an exciting business venture.

Important elements in building comprehensive partnerships concern the range of products and services to be offered at post offices and the role of postal staff in providing product information, account opening and assisting customers. The partnership should also define how the client space needs to look like, how information is provided and how the services are promoted and advertised with usage of the postal brand. The partnership also needs to define the information technology in post offices, connectivity and security, and how this is financed. Post offices could be seen as a

1/ "Banks" include financial service divisions within Posts, Post Office Savings Banks, National Savings Banks, Postbanks, and other commercial licensed banks and other forms for cooperation between Posts and licensed financial institutions, including money transfer operators, payment service providers and microfinance institutions.

potential backbone for access to cash, especially in rural areas. If so, the partnership needs to define solutions for secure cash logistics.

Even more important is how the partnership invests in training the postal staff providing the financial services. Clarity on the financial management is critical for the success of the partnership. This includes many aspects, such as investments in improvements of the post offices, liquidity and cash management, but also transparent and clear conditions for the cost and prices of the services rendered.

Building a partnership is often not a matter of hastily concluding a standard contract within a day, but rather, a challenge of building mutual understanding, trust and cooperation with the intention to cooperate for the longer term (seven years or more).

In addition, the paper provides useful planning and analysis tools as well as information on pitfalls to avoid when entering new business partnership.

The paper concludes with lessons learned. It is recommended to check whether all these lessons apply to or have been used by your partnership.





INTRODUCTION

This working paper is meant as a guide for managers of national postal operators (NPOs), banks and other financial institutions, regulators, auditors, technology firms and other stakeholders looking at ways to build or improve partnerships to leverage the existing network of post offices as a component of the financial access infrastructure.

Partnerships between Posts and licensed financial institutions exist in more than 80 countries worldwide. In another 40 countries, other types of cooperation exist with the aim to provide financial services. Over time, different models of partnerships have evolved, and the most successful have been built on solid and adequate preparation and commitment to implement.

This working paper provides an understanding of the fundamentals to advance financial inclusion through building strategic and sustainable partnerships between the Posts and one or more competent and committed financial institutions.

Partnerships
between Posts and
licensed financial
institutions
exist in more
than 80 countries
worldwide.

The paper also provides information and directions on how to choose the appropriate business model, building blocks, structure, division of tasks and responsibilities, prerequisites and enabling conditions of a successful partnership, as well as means to extract key lessons learned.



2

BUILDING BLOCKS OF THE PARTNERSHIP

Business case rationale

The partnership business model in postal banking that has emerged as the most successful is between the NPO and a licensed financial institution, most often banks. More recently, these include partnerships with payment service providers, microfinance institutions (MFIs) and FinTech companies.

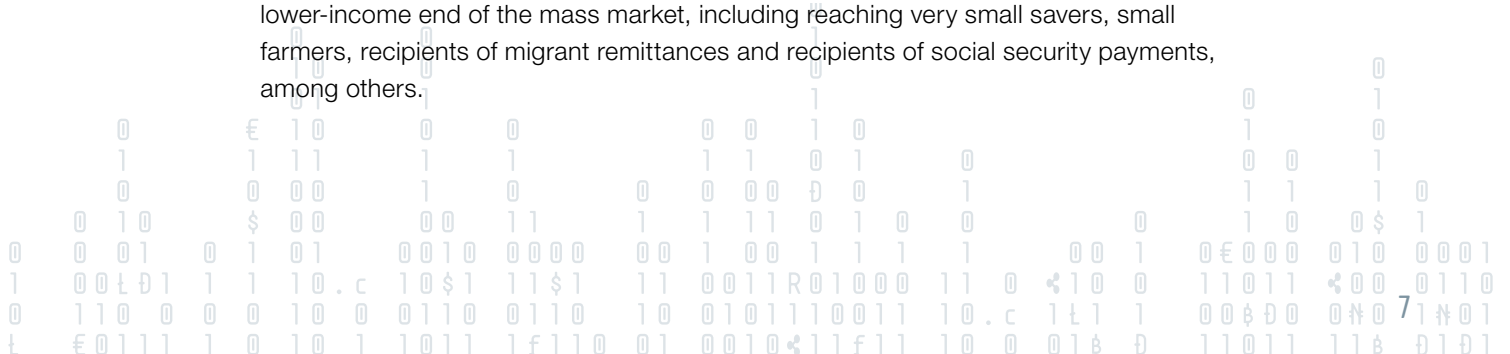
In some cases, this partnership has evolved from the historic postal financial operations (e.g. postal savings, postal cheque accounts) within the postal organization, which were operated on the basis of specific legislation or regulations. However, the historic model for postal savings and postal cheque accounts increasingly faces limitations in viability and relevance, as it does not respond adequately to market demand nor is it competitive. Transforming the former postal financial operations into a Postbank is frequently seen as the preferred option by the NPO, but doing so is far from feasible due to a combination of factors, including:

- lack of capacity in governance, management and professional specialists to develop and expand financial services; management of a licensed financial institution requires a set of skills and competences that differ significantly from postal logistics management;
- lack of information technology for back offices needed to operate financial services; and
- lack of financial resources to set up the financial institution, including required capital adequacy, balance sheet structure, and investments in branding, new products and technology.

Building a partnership is a viable alternative solution to establishing a Postbank, especially when doing so is unfeasible or would take longer than two years. In addition, a partnership brings other advantages that alleviate many of the hurdles, among which:

- policymakers and financial sector regulations require that postal financial services operate within the formal financial sector – i.e. compliant with the norms of financial regulators and supporting the national financial inclusion agenda, and the right partner will already be meeting these requirements; and
- growing competition means providing a more complete and integrated package with cards, mobile apps, accounts and credit facilities, and the right partner may have these services already established.

For larger financial institutions (FIs), the opportunity to partner with a Post means gaining additional distribution channels with the ability to expand downward into the lower-income end of the mass market, including reaching very small savers, small farmers, recipients of migrant remittances and recipients of social security payments, among others.





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Economies of scale and scope

The commercial viability of partnering with a larger institution stems from leveraging the larger institution's pre-existing capacity. Because the partner's marketing, back office systems, secure cash logistics and client service centres are already in place, the larger FI is equipped to handle the increased client/product accounts, as well as more transactions via a physical distribution channel that is shared with the Post. Likewise, the cost of the partnership is small compared to putting such infrastructure in place with its own bank branches.

For the Post, such a partnership is a great opportunity to diversify and capture substantial new revenue from its original non-core business, helping to maintain and develop the nationwide network through a strategically committed partnership.

For the FI, partnering with the Post gives it immediate recognition and additional access points or outreach. FIs can leverage the pre-existing public role of the postal network. Products use a postal brand (e.g. postbank, postfinance, postcash) and emphasize the ubiquity of the product: the vast postal network allows them to serve "anybody, anytime, anywhere", with special attention to underserved or excluded markets. This marketing strategy is often quite separate and different from the FI's own branding and marketing.

In other cases, the mirror of the above applies, where partnerships offer the opportunity to MFIs and alternative financial institutions (including former postal savings banks) to expand their business and "scale up" towards a larger formal FI, but essentially based on similar synergy benefits.

Preparation

Creating a viable partnership requires adequate preparation. The preparation includes developing a joint business case and a valuation for the management of both the Post and the FI. In such a valuation, it is useful to look at the entire set of building blocks, rather than only one or two advantages that a partnership brings (see Table 1).

Table 1: Building blocks in a partnership

Building block	Preparation step
Competitive value	Assess the present and future value of the postal brand in combination with the low-cost usage via the nationwide postal network (financial access infrastructure).
Financial inclusion for the underbanked population	Assess the size of the underserved market. While estimating the number of potential clients who will come from this market can be difficult, this exercise yields a more profound understanding of the postal banking potential and the value of leveraging the existing postal network in rural areas to financially include citizens and business.
Full-fledged range of services Broadening and deepening access to financial services	Assess future products beyond simply money transfers, remittances, savings and payments. A broad range of transaction-based services for consumer and retail financial products can eventually be added, such as credit, insurance, pensions and mutual funds, both via the post offices and digitally.
Existing post office visitors and users (foot traffic)	Assess the current flow of visitors to the post offices, including those for the limited financial services. This number will provide an insight into the potential of the post offices as a communications medium and cross-selling and deep-selling, in-person and through digital channels.
Synergy and symbiosis	Assess the considerable synergy between the FI and the Post. The partnership can leverage the existing back office systems of the FI, and its management of retail financial services with the existing network of post offices. For example, investments needed for postal technology, upgrading, marketing and training could be benchmarked with alternatives in building a brand, developing nationwide network and acquiring new clients.
Spin-off business with Post	Assess the additional potential business in the partnership. In many cases, the Post is a relatively large local entity and employer. Additional opportunities may exist in corporate cash management, payroll services for Post, pension fund, asset management, real estate finance, employee benefits, international postal settlements, postal vehicle fleet finance and other corporate finance. Assess the potential logistics business with the FI, which could vary from delivery of account statements, payments cards, direct mail, and valuable documents, to couriers and express business.

Once these building blocks have been assessed, the Post should have a better understanding of the potential business case for a partnership.

Partnership types

Primarily, there are two types of partnerships:

- **simple agency agreement** with an FI – this type usually involves handling of cash transactions for a few financial services; and
- **strategic partnership** – this type seeks a long-term arrangement involving a broad range of services. It generally aims to optimize the use of the postal network to advance financial inclusion, especially in rural areas. Strategic

3

PARTNERSHIP BUSINESS MODELS

Partnerships can take many different forms. This section describes the most common business models and highlights the relevant governance, management, strategic control, investment and risks of each.

Strategic control, governance, management, investment and risk

Solutions can be shaped in different legal/institutional models, such as: long-term concessional agreements, expanded agency agreements, in/outsourcing agreements, and joint venture or equity participation of the Post in a bank or subsidiary of the bank. In some cases, partnerships are organized via one entity with (exclusive) integrated responsibility for the financial services (named “Postbank” or equivalent), and other ones for specialty products (e.g. remittances) or with many (product-related) entities.

The models are:

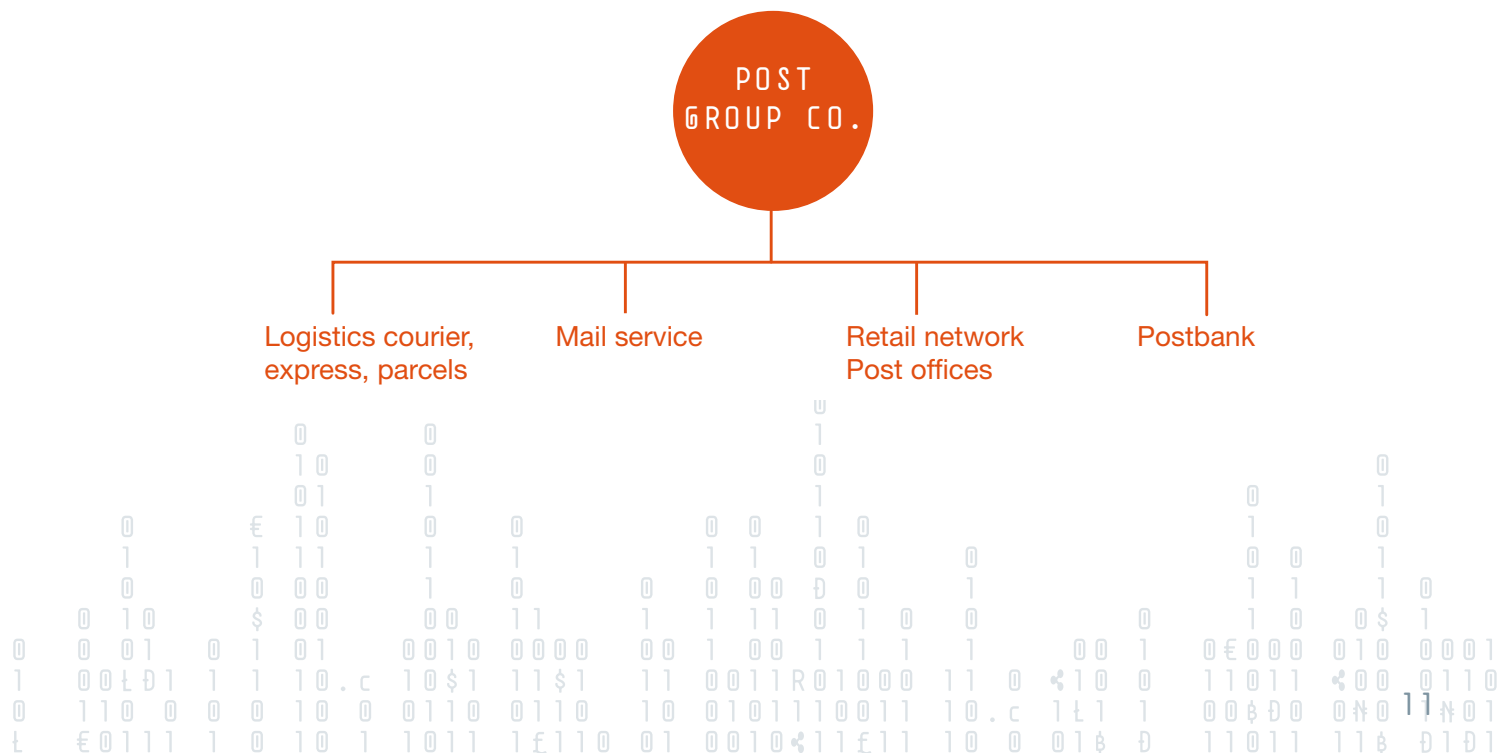
- Own Postbank (not a partnership)
- Integrator (strategic partnership)
- Joint Venture (strategic partnership)
- Distributor (agency agreement)
- Landlord (real estate, non-strategic partnership)

Partnerships can take many different forms.

Own Postbank model

The Own Postbank model is not actually a partnership, as the Post operates on its own without joining another FI. In general, the Post operates as a separate corporate entity within a group structure, not as a subsidiary of a postal mail operator (see Figure 1).

Figure 1: Own Postbank model: corporate structure



This model requires each operating company to have a separate management responsible for the entity; likewise, there are separate financial statements for each company. These are consolidated in the financial statements of the group. In many cases, the Postbank tends to be the largest operating company within the group in terms of revenue and balance sheet. An essential part of the economic management of this model are the service-level agreements between the different companies – for example, the agreement between the Postbank and post offices for the usage of the network.

Table 2: Own Postbank model: pros and cons

Pros	Cons
<ul style="list-style-type: none"> • high strategic control on Postbank • build and retain full value of operations • leverage synergy and brand value across the group • can be prepared for investments via partnership or stock exchange 	<ul style="list-style-type: none"> • equity (capital) is tied up • high level of bank management skills required internally • high level of risks that are different from the postal and logistics • need for strict compliance towards different regulators; for example, financial, postal, information and communication technology (ICT), etc.

The feasibility of implementing the Own Postbank model within a reasonable time frame (less than two years) requires certain prerequisites to be in place. These include:

- large-scale postal financial operations are already present (e.g. significantly vast postal savings, postal payments);
- un(der)served markets present sufficient growth opportunities in payment transactions, remittances and mainstream financial services;
- group structure with business units and advanced accounting already exists
- Post has credibility with financial regulator to obtain full banking license; and
- sufficient capital to invest in growing the business, meeting standards and facing fierce competition; it implies capital for adequate equity, reserves and access to corporate finance.

An intermediate step in the implementation of the Own Postbank model can be the establishment of a Postbank as deposit-taking MFI, which allows the Post to build the structure on a smaller scale. Additionally, creating a payments bank or payments service provider can also be considered part of this model.

The Own Postbank model is/was present in the following countries: China, France, Gabon (MFI), Germany (until 2007), India, Israel, Japan, Morocco, New Zealand (until 2016), Poland, Portugal, Senegal (deposit taking only), South Africa (bank license to be issued), Switzerland, Turkey, United Arab Emirates (MTO and Forex) and Zambia (MFI). Other countries are in the process of transforming into a similar structure, including Algeria, Benin, Burkina Faso, Burundi, Cameroon, Egypt, Korea, Namibia, Pakistan, Taiwan, Togo, Tunisia and Yemen.

Integrator model

The Integrator model enables the Post to offer a full range of financial services through post offices and other channels such as the Internet, telephone and mail. The Post distributes the services from multiple providers (own postal financial services division, one or more banks, insurers, payment service providers) usually under a “white label” (the partner FI is unknown to customers) or by co-branding with the partner(s). The Post controls the product offer and marketing and builds up its own client database.

Although the Integrator model requires less corporate transformation than the Own Postbank model, it does require the Post to have a clear corporate structure, financial reporting and capacity in marketing management and agency management of the post offices. However, there is no requirement to establish a separate legal entity nor to request a license.

The Integrator model should be considered when there is:

- limited capital to invest in an Own Postbank;
- regulatory difficulty in obtaining a banking license;
- one or two in-house core products (e.g. postal savings, payments) already available as starting base; and
- easy-to-recruit professional management in marketing, negotiation and IT for financial services.

Table 3: Integrator model: pros and cons

Pros	Cons
<ul style="list-style-type: none"> • maximizes distribution capacity of the postal channels • leverages existing assets and resources • high strategic control • optimizes value of operations in financial services • limits degree of dependency on outside partners 	<ul style="list-style-type: none"> • complex to manage • critically dependent on high-quality management in marketing of financial services and in negotiation skills with potential business partners • need to manage conflicts with the different partners, providers and internally • need for an open IT system, flexible, interoperable, scalable • selection of providers/partners and securing commitment of partners is a risk

The Integrator model exists in Brazil, Ireland, Italy, the United Kingdom, and existed in Estonia between 1997 and 2015. Several other countries have launched one or more financial services under their own label or brand.

Joint Venture model

A Joint Venture (JV) model is a type of public-private-sector partnership wherein a new company or legal entity is formed by the Post and an established FI. Typically, each partner owns a 50 per cent share of the new company. In this arrangement, the Post provides the existing postal financial services (division or entities), the postal brand and access to the post offices. The FI provides part of the management, marketing, back office, IT and asset management. The FI also provides the banking license and capital adequacy ratio in accordance with local regulations. The contributions by both parties can be considered as commitment and investments, along with the additional cash

component. Service-level agreements between the JV and the FI, and between the JV and the Post complete the model. The issues of the bank license and capital adequacy ratio are resolved through the participation of the FI and in accordance with local regulations. The JV model could be considered when the Post already has an existing operation in financial services of significant size, and needs to step up to expand and complete this into a full-fledged banking model.

Table 4: Joint Venture model: pros and cons

Pros	Cons
<ul style="list-style-type: none"> FI provides license, injects capital and meets regulatory requirements, provides specialized management, back office and asset management accelerates and maximizes distribution capacity of the postal channels, and leverages existing postal assets and resources no or limited cash to be invested by Post and prospect of cash investment by FI to be used to upgrade the postal network or assets increased value and revenues while Post retains strategic control of its financial services, brand and network JV pays fees for usage of post offices and staff JV can be set up in a relatively short time frame 	<ul style="list-style-type: none"> governance and management of the JV in which the Post shares control with the bank; JV will manage the financial services through the postal channels equity tied up on the side of the bank limited flexibility; long-term commitment to jointly build the business; the Post cannot freely add other business partners or switch partners

The JV model exists in Belgium, Guinea-Conakry and the Russian Federation. It existed in Slovenia from 2004 to 2016 and in Ireland from 2005 to 2009.

In addition, there are several countries where the Post holds a small minority share in a bank or insurer that provides its services through the post offices. These include: Austria (until 2017), Cambodia, Congo, Côte d'Ivoire, Croatia, Serbia, Slovak Republic, Tanzania, Uzbekistan and Viet Nam. These examples could be considered as a differentiation of the JV model or 50/50 partnership. The cross-shareholding provides the basis for a close relationship, and it helps the Post to transparently share in the profitability of the bank through receipt of dividends.

Distributor model

In the Distributor model, the Post and its post offices operate as sales agents, distributing financial services for one or many FI partners, eventually extending all product lines. The products may be “white labelled”, co-branded, or display only the FI brand. The FI partner(s) control the product offer, take care of marketing, and back office IT (including the client database management) and handle regulatory compliance.

The Distributor model is fairly common because it is not difficult to structure and does not take a long time to arrange and launch. Set-up can take a matter of weeks rather than months. It only requires an agency agreement between the Post and the FI. The issue of licensing and regulations is therefore limited to compliance with applicable requirements for agencies. This model is sometimes used in conjunction with other models, especially for international remittances.



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The Distributor model should be considered when the Post:

- has limited capital to invest in the development of new financial services or to comply with licensing requirements
- faces challenges and constraints in recruiting professionals with management capability and skills in marketing financial services
- has selected and found partners committed to growing the business in cooperation with the Post

Table 5: Distributor model: pros and cons

Pros	Cons
<ul style="list-style-type: none"> • requires less management attention and capacity; focus can remain on postal core business • short time-to-market • accelerates and optimizes distribution capacity of the postal channels; leverages existing turnover on postal assets and productivity of human resources • no or very limited cash to be invested or tied up by Post • increased value and revenues; Post retains strategic control of its own postal services, brand and network • no immediate market risk • adds credibility beyond the postal brand 	<ul style="list-style-type: none"> • requires a set of skills to present the Post to business partners and to negotiate • limited value will be captured; transaction fees but no investments from partner(s) • highly dependent on partners and their interest in distribution via postal channels which are in direct competition that alternative channels (e.g. digital, other retailers) • reputational risk • need for an open IT system, flexible, interoperable, scalable, and connected with own enterprise resource planning or accounting system • requires tight internal cash and liquidity management and settlement with partners • increased complexity for front office staff

The Distributor model exists in many cases around the world. In some of these cases, the Post distributes co-branded or white-labelled services. The model can also complement one of the other models. This is especially true for international remittances.

Landlord model

The Landlord model is an effective and quick solution for Posts that want to keep focus on their core postal business but also want to increase revenues from usage of their post office property (or to decrease the cost of maintaining a nationwide postal network). The Landlord model can be a politically and publicly acceptable alternative to closure of post offices. Allowing the financial sector to use the assets to advance financial inclusion can be an additional rationale.

The Landlord model can take on many forms, but most have one of the following characteristics:

- Shop-in-a-shop: space inside post office buildings is leased or let to licensed FIs to provide services by their staff to clients using the FI's IT systems. The bank pays a rental fee to the Post, regardless of actual business turnover. This model does not require the Post to set up a legal entity or obtain a special license. In practical terms, the Post can lease space to:
 - operate one or more counters or teller windows for bank staff
 - establish an in-store micro branch, room or desk for specialized products
 - split the building into two retail spaces: one for the Post and the other for a credit institution
- Post office real estate is sold, and that space is managed by another entity such as a bank, an investment fund, a retail chain or an individual shopkeeper (franchiser). This entity may then rent out any unused space; and in fact, the Post itself often leases back the retail space needed for its current operation, except in the case of franchising. This model requires more legal arrangements, contracts, and could require a Real Estate Investment Trust or other legal vehicle.



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Table 6: Landlord model: pros and cons (for the Post)

Pros	Cons
<ul style="list-style-type: none"> sharply reduces expenditures related to fixed assets and fixed, full-time employment to maintain a dense nationwide network engagement with strategic partner(s) committed to investing, financing and developing the postal network the Post is ensured of a partner to co-search and arrange for other suitable ICT and retail partners (e.g. mobile telecom) to sell via the retail post office network keeps business focused on core postal logistics business and does not get engaged in financial services and associated risks 	<ul style="list-style-type: none"> loss of full control of the post office network and more exposure to accountability and meeting performance and quality standards; this may not be convenient for management accustomed to running a “closed” shop postal front office staff may be contracted under different labour conditions; this may lead to differences in conditions and labour tensions or conflicts location's policy and layout needs to shift its focus on servicing the clients; this requires a major change from the historic transport and logistics perspective and can be quite a challenge, meeting resistance to change both inside the Post and with, e.g., municipalities risk of business continuity of the bank as an institution and as a partner working through physical channels to the mass-market segments

Table 7: Landlord model: pros and cons (for the FI)

Pros	Cons
<ul style="list-style-type: none"> gaining a strategic competitive advantage in nationwide presence and distribution channels, relevant for stronger penetration in mass market relatively small investment taking into account location and size of network influence in control of network, quality, layout and location; reducing risk if entirely managed and owned by Post significant cross-selling opportunities and business expansion, also to micro, small and medium-sized enterprises, and trade finance as well as corporate finance to Post and employee benefits for postal staff 	<ul style="list-style-type: none"> risk related to Post in terms of quality, performance, reputation remains, as well as pressure on revenue/cost-sharing when mail volumes further decline risk related to government interference remains and FI is associated with any obligation to maintain network density in longer term (7-15 years), network may not be needed in view of increased usage of branchless and digital channels (mobile, Internet, electronic)

The Landlord model is often used in combination with other models, especially in-store micro branches (“shop-in-the-shop”) for specialized financial products (lending, insurance) and franchising (transfer of post office to a retailer).

Specific examples of the Landlord model include:

- Germany: Postbank acquired a large portfolio of the post office real estate. It uses this for its own branches, with leases back to Post of variable space for postal (mail/logistics) as well as other tenants
- Lesotho: Post and Postbank operate separately in the same buildings
- Netherlands: Postbank acquired 50 per cent of the retail post office buildings between 1992 to 2008 in addition to the initial purchase, annual general and maintenance fees plus transaction fees paid for usage and improvement of the postal network

4

EXCLUSIVITY AND INTEROPERABILITY

The term *exclusivity* often gives the impression that such an arrangement will not live up to the “financial inclusion” potential of the postal network. However, the real potential depends on the terms and the scope of the “exclusivity”. For example, exclusivity might mean that all payments (transfers, remittances and deposit transactions) to/from any account in the country held in or connected to the national payment system are processed, settled and cleared through one single bank. In such a case, the exclusivity may maximize both inclusion and efficiency (see Table 8).

Table 8: Exclusivity versus multiple bank agency

Exclusive arrangement ²	Multiple bank agency
Simple, transparent, efficient in terms of: <ul style="list-style-type: none"> • counterpart management and oversight • staff training and commitment • standardization of technical processes, accounting and cash logistics 	Complexity, requiring a certain level of capacity at the postal operator in management, staff training, and compliance and technology capabilities, and more complex oversight/risk management, accounting and cash logistics.
Economies of scale and scope in payments processing can be achieved through synergy and standardization and result in increased competition for providing efficient payments instruments to the poor.	Useful as an ancillary distribution channel to serve client segments that do not wish to use bank branches, or which are not seen as bankable through bank branches.
Strategic marketing advantage to advance inclusion and bank customer segments that are un(der)served; cross-marketing between product lines, helping the breadth and depth of access to financial services to the poor, rural and un(der)banked and development of service package in a financial literacy learning curve.	For both banks and Post, useful for non-strategic approaches, as add-on, or ancillary. Providing more and broader choice to the un(der)served, especially if product and conditions are made easily comparable, with competition within the postal channel.

The exclusivity of the bank partnership should also be seen as different from the exclusivity of remittance delivery, which is only one of the (many) products that can be provided through the postal network. In the case of remittances, an exclusive agreement with only one money transfer operator (MTO) would be to the detriment of the Post and its mission in advancing inclusion. It would be a different case if the partner FI or another partner are able to aggregate the processing of services of many MTOs for disbursement at post offices.

2/ In this context, the key assumption is that a bank is (aggressively) strategically committed; it is not making a defensive move to prevent competitors from moving into the mass (poor/unbanked) market segments.

Interoperability depends highly on the ICT of the post offices. Obviously a prerequisite for ICT is stable and adequate power supply, which is not the case in many African rural post offices. Solar panels on the roof of the post office, VSAT dishes to connect with satellites, or mobile data communications are options that need to be considered.

Figure 2 provides an example of the (most) basic ICT architecture for a postal network to provide front office transactions for many institutions or partners.

Figure 2: Basic ICT architecture - Postal network for front office transactions

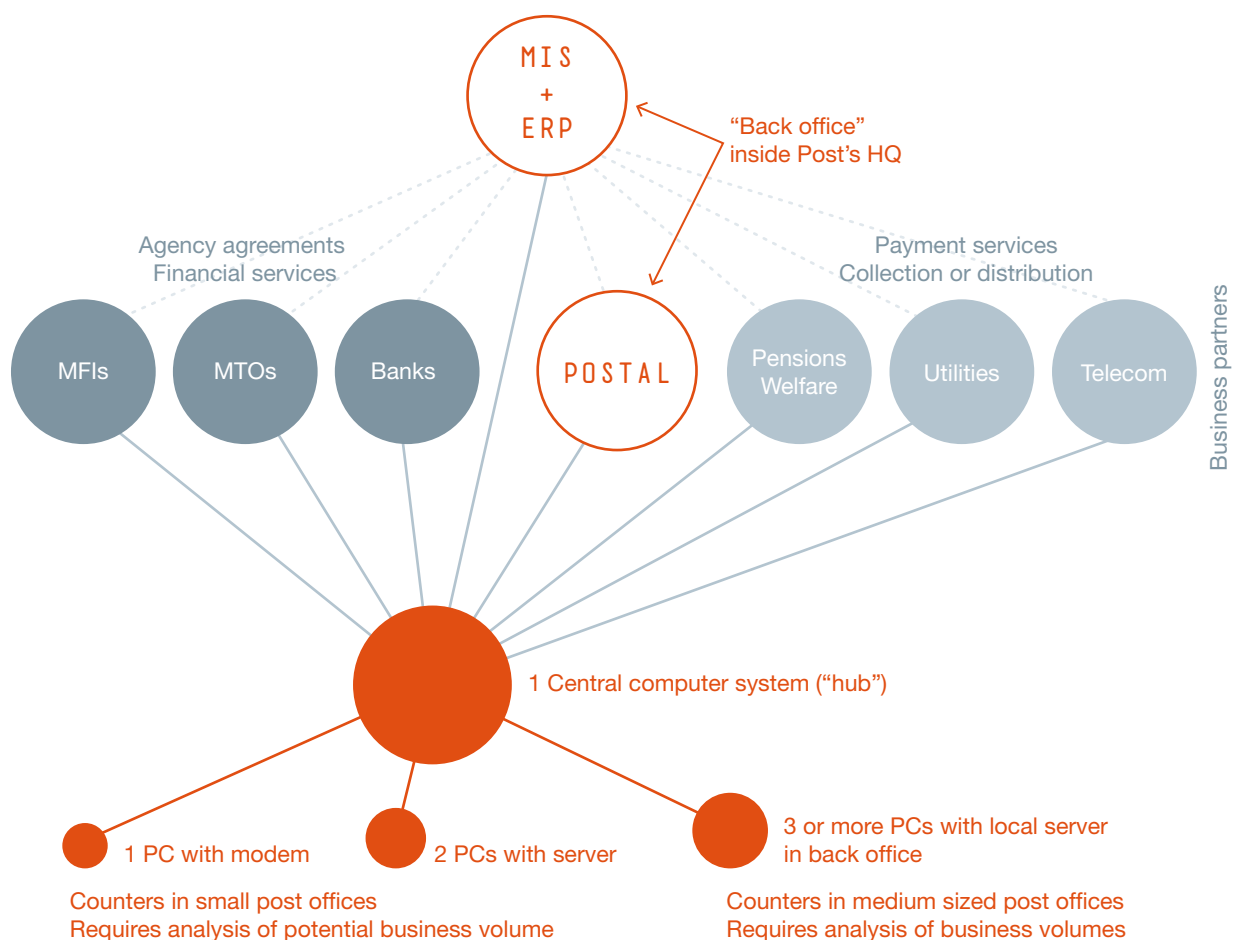


Figure 3 provides an overview of the architecture in a more complete way for a Post with a postal network that can be linked to financial institutions for the provision of a broad range of services.

Figure 3: ICT architecture



KEY ENABLING AND SUCCESS FACTORS IN BUILDING POSTAL BANKING PARTNERSHIPS

Table 9: Partnership success factors

Post (public sector)	Bank/FI (private sector)
Government policy	License and financial capacity/track record
<ul style="list-style-type: none"> • cross-sectoral coordination between postal, ICT, finance (state budget) on role, mission, governance and ownership of postal (retail) network, as regards “universal postal service”, and digital and financial inclusion. Is leveraging the postal network part of the national financial inclusion agenda? 	<ul style="list-style-type: none"> • general banking license, and/or licensed to provide the financial services typical for the mass market, including the poor and un(der)banked • participant in interbank settlement/clearing systems, other (interbank) payment systems, international payment systems and applicable deposit insurance/guarantee schemes; interoperability of the payments solutions • demonstrated interest and capability to expand its financial services across channels and segments • adequate financial capacity to enter into a long-term build-up of (pro-poor, rural) mass market business, even if it produces loss and negative cash flow in the initial phase to build up the partnership

There is a set of enabling conditions and key success factors that help to ensure the creation of an effective partnership.

Post (public sector)	Bank/FI (private sector)
Regulatory framework <p>Transparent and balanced regulatory framework for:</p> <ul style="list-style-type: none"> postal sector: regulator for mail/parcel/express ensuring fair level playing field postal sector: clear and exact definition of scope of postal Universal Service Obligation (USO) and objective account of the cost and financing of the USO financial sector: clear definition of requirements for non-bank branches participating as agents for low-value financial services, including reporting, safety/security, cash, links with payments systems and risk liability, among others financial sector: policy and regulations incentivizing outreach to the un(der)banked ICT infrastructure/sector: clear definition of role for the postal (retail) network in providing (public) access to ICTs 	Strategic business commitment <ul style="list-style-type: none"> strategic long-term (7-10 years) vision and commitment, coupled to apprehension of the (underbanked, poor, rural) mass markets, and developing and implementing a phased, realistic business case synergizing the value of the postal retail network and its business potential; able and interested in jointly building and developing an integrated concept
Postal operator <ul style="list-style-type: none"> clear separation by law and persons between public policymaker (specialized ministry dept.), owner (e.g. Finance Ministry dept.), regulator (independent authority) and operator (incorporated and with qualified professional management) financial reports and accounting based on International Financial Reporting Standards (IFRS) and independently audited transparent separation in financial and management accounting between USO mail, financial services and other business lines, based on objective internal transfer pricing; avoiding the suggestion of cross-subsidization management authorized, accountable and responsible for performance mandate and mission to manage Post as a sustainable business, and to enter into partnerships with the private sector via contracts, joint ventures, in/outsourcing and to structure corporate finance capacity-building, including centralized management functions (e.g. treasury/liquidity management) and quality assurance corporate ICT network 	Resources/capacity <ul style="list-style-type: none"> marketing, including research, product development, CRM and multichannel management operations/technology with capacity to process at high quality and low cost bulk volumes of small-value transactions and cost-efficient cash logistics financial, including risk management, liquidity management, management accounting, internal transfer pricing for small-value operations and performance/profitability analysis of client (segments), products and channels human capital development/training towards capacity development



While it is necessary to understand the factors that help lead to successful partnerships, it is equally valuable to understand those factors that can lead to failure. Table 10 provides a guide for items to guard against. If these challenges can be identified in a timely manner, they can be mitigated or avoided altogether.

Post	FI
Management <ul style="list-style-type: none"> • weak accountability; non-transparent responsibility structure • frequent changes in key management; appointed for political reasons instead of professional capability • lack of strategic commitment, and conflicting expectations, and meanwhile entering into negotiations with other potential providers • corporate culture clashes between Post and FI or public sector vs. private sector 	<ul style="list-style-type: none"> • inadequate level of control over operations • lack of strategic commitment/long-term vision; conflicting expectations leading to focus on short-term profitability (in next 3-6 months) • insufficiently familiar with business concept of post offices as shared distribution channel; too much copying of traditional branch concept • corporate culture clashes between Post and FI

Post	FI
Marketing/sales	
<ul style="list-style-type: none"> • layout and interior design and queue management not geared to servicing mass client groups • lack of customer intimacy/privacy • weak support in helping financially illiterate customers (e.g. for filling out applications, choosing a basic savings product) 	<ul style="list-style-type: none"> • lack of research and focus on product design (basic, simplified, easy) geared to un(der)banked mass market and poor/low income segments • low priority to high-volume/low-value market; positioning post office as ancillary channel only • non-postal branding • inconsistencies between channels
Operations/technology	
<ul style="list-style-type: none"> • front office operations lack quality, accuracy and/or customer focus • decentralized cash (logistics) management • inadequate or weak corporate ICT network to connect to partner(s) 	<ul style="list-style-type: none"> • operational excellence and quality not ensured for high-volume/small-value operations • lack of capacity to handle peak flows of small-value transactions and large number of accounts • lack of ability of fast and cost-efficient processing of bulk flows • other channels lack consistency and synchronization in provision of service and information
Staff	
<ul style="list-style-type: none"> • lack of skills, motivation and management accountability • broad ambitions and unclear priorities between different business lines (mail/ parcels and financial) 	<ul style="list-style-type: none"> • lack of dedicated and committed counterparts to manage interface between bank and post • unclear priorities between different channels; priority or preference for own channels (branches, mobile, Internet, call centre)
Finance	
<ul style="list-style-type: none"> • weak and late reporting • accounting standards and practices deviate from International Financial Reporting Standards (IFRS) and audit function is weak or not independent • symptoms of using financial services (client) funds and revenues for cross-subsidizing loss-making mail operation 	<ul style="list-style-type: none"> • inadequate product, channel and client (segment) profitability analysis • weak integrated corporate finance approach towards Post

DIVISION OF ROLES, RESPONSIBILITIES AND TASKS IN THE PARTNERSHIP

Table 11: Division of roles, responsibilities and tasks

Post	FI
Finance	
<ul style="list-style-type: none"> • charges for work performed on a full (activity-based) cost principle • charges for sales performance • charges for promotions at post offices • charges for investments specifically made to provide financial services • charges for network availability 	<ul style="list-style-type: none"> • remains fully responsible for asset and risk management of funds mobilized or extended through the post office network • determines accounting processes and systems • compensates Post for costs made for promotions, administration, sales, processing • (co)finances investments at post offices related to the execution of financial services

Partnership agreement details

This paper does not intend to provide an exhaustive description nor a complete template of the partnership arrangement. The following is a brief description of the issues that are recommended to be included in partnership agreements and annexes.

The partnership agreement between the Post and the bank should include a detailed description of:

- range and type of services to be provided
- post office counters and types
- post office technology
- post office layout and location policy
- staff and training
- organization and culture
- financial management and modelling
- regulatory compliance

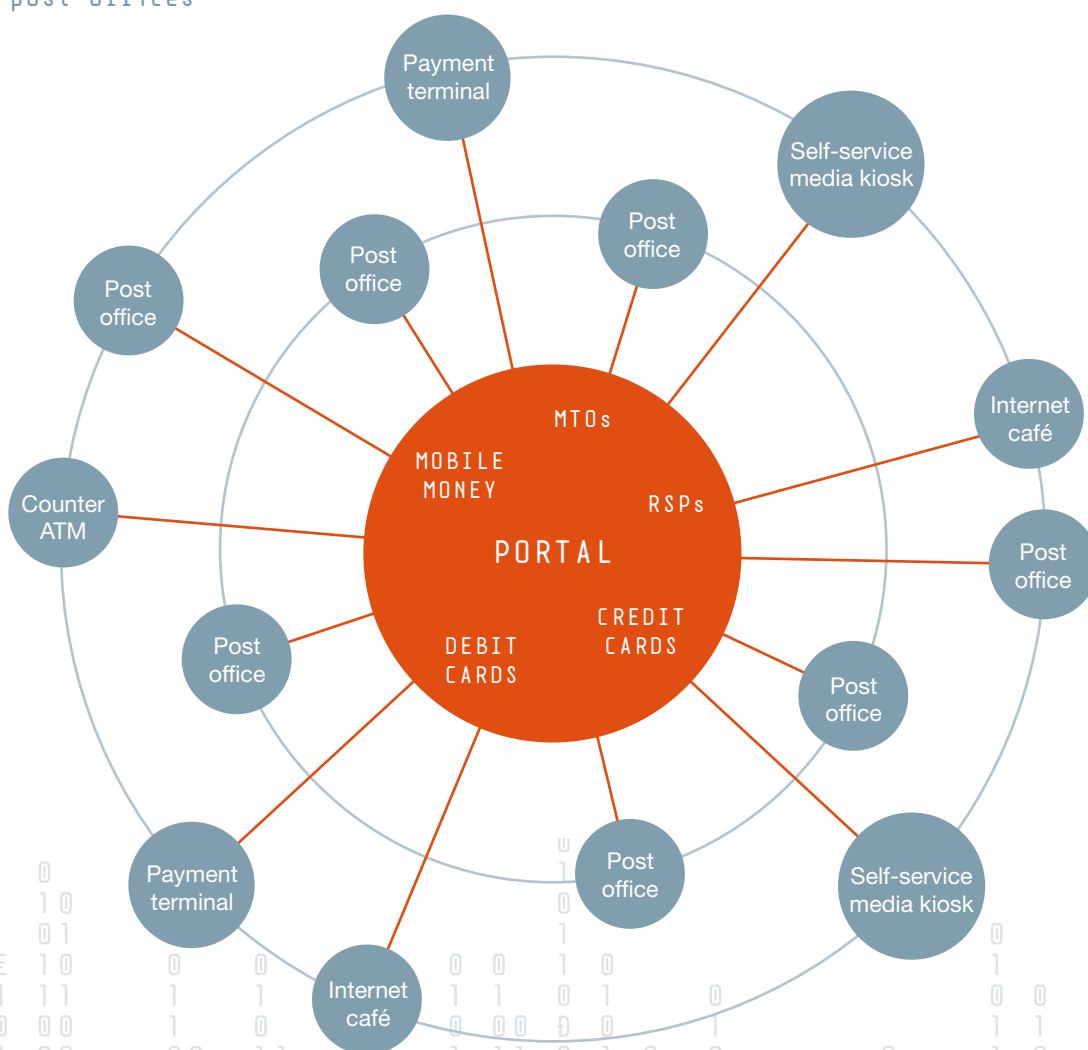
Range and type of services to be provided. An exact and detailed description of the transaction services should be provided. For each of these services, the conditions, process, procedures, forms, activity flow, quality norms, reporting, checks, controls, etc. should be described and include who exactly will be responsible for the defined steps in the process. Frequently this is accomplished by preparing a standard operating procedure (SOP) for each service and product. The activities described in the SOP are also the basis for measuring the cost, based on activity-based costing as input for the financial chapter of the agreement. An example of a SOP for remittance delivery is provided in Working Paper 1.

Post office counters and types. A clear and detailed definition should be elaborated, stating which services are provided at which counters, and in which types of post offices. It would be assumed that a basic range of standard services are provided at all counters of all post offices nationwide, if feasible. In many cases, these services are provided at “universal counters” handling a broad range of relatively fast and simple operations. In the pilot countries of the African Postal Financial Services Initiative (APFSI), the design was provided for these types of counters. In addition, the agreement should include the specifications of each product or service provided at each post office (or special desk used for more complicated services, advice, information or assistance in opening an account). The agreement also needs to define for which operations “doorstep banking” (i.e. at the home address of the customer) are provided by letter carriers.

Post office technology. The agreement should include a detailed definition of the post office retail technology, such as the PC terminal, printer, scanner, screen, payment device, cash box, safe, vault, fire alarm, burglar alarm, router, broadband connectivity and uninterruptible power supply (UPS). This is not only relevant from the technical and operational perspective of the partnership, but also for the financial and financing chapters, especially when the technology requires a substantial upgrade. These ICT items could be considered as minimum and equivalent to the technology required for agency banking as defined by financial regulators. Through APFSI, more than 260 post offices were equipped with this type of standard technology.

The technology in post offices can be expanded to provide digital access through additional devices. Post offices often act as a “front office” for the delivery of a broad range of services even though the services are not processed at the post office. As such, reliable data communications are critical to link the rural post office to a hub or gateway in the headquarters of the Post, and which is in turn linked to the financial institutions, payment service providers and MTOs. Figure 4 shows examples of these additional technologies, which include (among others):

Figure 4: Potential technology services provided by post offices



Post office layout and location policy. In most cases, the agreement also includes a section spelling out the details of the layout of the customer area of the post office, including specifics of the interior design and the signage outside as regards presentation of the financial services and, if applicable, the specific brand or logo for these services. This information is important as a guideline for the technical staff in adjusting the post office layout. APFSI provided corporate style guides or brand books for four NPOs. These guides were used for the redesign of selected post offices.

Staff and training. A key element in the agreement is the definition of professional qualification of the staff involved, such as the tellers, postmasters and other specialists in the Post involved in the partnership, as well as the required training programmes, and who and how these training programmes are organized. The agreement might also describe the incentives for postal staff and internal communication channels; it may also result in additional financial input.³ APFSI conducted a training needs assessment as basis for a training plan, which included training-of-trainers, management training, and a programme for the operators or tellers at post offices.

Organization and culture. Post and FI must spell out the organizational interfaces between the two partners at the functional and hierarchical levels – i.e. at local post office branch level, district or regional level, and at head office level for marketing and client services, IT & operations, HR and training, and finance including the cash and liquidity management. The success of the partnership depends to a large degree on the effective dovetailing of the two organizations. In many cases, the corporate culture of the two organizations differs significantly; and it requires additional management effort to build a true partnership.

Financial management and modelling. Simple agency agreements between Posts and FIs often have one basic criterion for the revenues to the Post, namely the volume or value of the transaction flow and a percentage of that flow or a fixed amount per transaction. More strategic partnerships take into account additional elements such as:

- fees and commissions charged to the post office clients
- transaction cost incurred by the post offices based on objective cost allocation, e.g. using the activity-based costing methodology
- cash transport and logistics cost
- cash storage inside post offices
- cash counting
- space inside post offices specifically dedicated to financial services operations, advice, merchandising or promotions
- training of staff
- data communications
- front office technology and equipment
- adjustments in post office layout or location
- capital expenditure programmes and the cost of financing
- customer acquisition fee
- performance fees (e.g. for growth of clients, accounts, deposits)
- post office network availability fee

3/ Usually included in the financial annex.



It is important to take these elements into account in order to build a fair and balanced agreement, keeping both partners committed to the partnership and acknowledging the strategic value. Partnering too quickly without taking the above into consideration has substantial risk to result in dissatisfaction with one or both partners.

The partnership agreement should be evaluated with respect to the applicable financial sector regulations.



KEY LESSONS LEARNED FROM BUILDING PARTNERSHIPS

The following key lessons have been learned from the many cases of Post and FI partnerships.

- A solid and adequate preparatory process involving all key stakeholders is needed. The diagnosis and planning often results in a development plan that includes intensive capacity-building as well as assistance in creating financial accountability and valuation of the postal (network) operator. It usually takes three to nine months to prepare and set up the partnership, which often commences with a small-scale pilot prior to nationwide roll-out.
- Transparency and objectivized internal transfer pricing and cost allocation leading to clear accounting and financing for postal and financial business is a key element in the preparatory process.
- For the provision of basic financial services at post offices, it is a prerequisite that the post offices become ICT networked and equipped with security (alarm, safe boxes, vaults), and that the staff is trained in accordance with the requirements of the financial regulator.
- Financial services are usually the primary activity and source of revenue at the front office as well as the main growth opportunity for the Post. The partnership can support the national financial inclusion agenda and avoid the painful possibility of closing post offices due to decline in traditional mail.
- A gradual and managed change process is needed to shift towards all financial services at post offices to being managed under the responsibility of one or more licensed FIs; such a process also needs to address the resistance to change and vested interest factors.
- Partnerships with larger/stronger and international FIs that are strategically committed to reaching into lower-income segments tend to work well for the Post. This requires the Post to invite partners and present the partnership as a compelling and attractive opportunity. Partnering with MFIs, alternative finance institutions or FinTechs could also be an option as part of their process of expansion and growth.
- Although many of the developing countries attempt to develop a road map for Post-banking partnerships, there continues to be limited exchange of data, experience, research and development of sound practice guidelines. International organizations and FIs could do more, but they need to receive more and periodically objective data and facts to begin to do so.



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International Fund for Agricultural Development (IFAD)

IFAD invests in rural people, empowering them to reduce poverty, increase food security, improve nutrition and strengthen resilience. Since 1978, IFAD has provided nearly US\$16.6 billion in grants and low-interest loans to programmes and projects that have reached about 445 million people. IFAD is an international financial institution and a specialized United Nations agency based in Rome – the United Nations' food and agriculture hub.

Financing Facility for Remittances (FFR)

The IFAD-administered US\$60 million, multi-donor Financing Facility for Remittances (FFR) is funded by the European Commission, the Government of Luxembourg, the Ministry of Foreign Affairs and Cooperation of Spain, IFAD, the United Nations Capital Development Fund, and with the Consultative Group to Assist the Poor and the World Bank as institutional partners. The FFR works to increase economic opportunities for poor rural people by supporting and developing innovative, scalable cost-effective and easily accessible remittance services that promote financial inclusion and productive investment in rural areas. Currently, the Facility's portfolio includes almost 60 projects in more than 40 countries across the developing world.



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