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In Post We Trust

Role of the Post in expanding
access to digital finance

Case Study No. 1

Financial Inclusion Technical Assistance Facility (FITAF)



Berne, November 2019

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Glossary

| | |
|--------------|---|
| App | (Mobile telephone) application |
| ATM | Automated teller machine |
| DFS | Digital financial services |
| FITAF | UPU Financial Inclusion Technical Assistance Facility |
| SMEs | Small and medium enterprises |
| TA | Technical assistance (project) |
| UPU | Universal Postal Union |

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INTRODUCTION

Posts form the largest integrated physical distribution network in the world, with over 668,000 postal offices operating in the 192 UPU member countries and employing 5.3 million people. A further 1.4 million postal carriers, who visit hundreds of millions of households each day, augment this large physical presence.

The network itself comprises two million points of contact around the world, not including letter boxes and automatic dispensers. Today, the postal network makes it possible to physically connect everyone around the world in a single postal territory.

Posts have a long tradition of offering financial services, dating back to 1861 when the first postal savings bank was established in the United Kingdom. From their early days, most postal and telecom (P&T) operators have provided various financial services, most notably money orders, telegraphic money orders and savings accounts. They have come a long way since, and most are starting to venture into providing digital financial services (DFS) to their customers.

The postal financial services network as a whole comprises **1.96 billion accounts belonging to approximately 1 billion customers**. An estimated 900 million people also use the post office as an access point to make or receive payments (UPU, 2016). Posts are increasingly using DFS channels for service delivery in response to customer demand.

Data collected by the UPU shows that nearly **91% of postal operators provide some form of financial service** in the UPU member countries and territories (183 out of a total 201 designated operators,* referred to in this paper as "Posts"). Most Posts see postal financial services as **a source of revenue diversification**, in the face of declining revenue from traditional services such as letter post.

The most common financial services offered by Posts are **money transfers and remittances**, provided either by the Posts themselves or in partnership with banks and money transfer companies, as well as **bill payments and government-to-person (G2P) payments**. Only 8% of Posts are fully fledged postal banks offering a broad range of products and services.

It is important to recognize that **not all Posts offer the same set of inclusive financial products** and services.

Around the world, Posts are at very different stages of corporate, technical and product maturity. Their maturity and the breadth of financial services offered depend on a number of factors including:

Market demand for inclusive financial services, **or the market failure thereof**;

Conducive **policy and regulatory environment**;

Level of innovation in designing products, services and delivery channels;

Investment made in human and technical capabilities;

Value-driven partnerships with financial institutions, mobile operators and fintech businesses; and

The **level of trust** that the Post, as an institution, enjoys with communities and individuals.

The postal network makes it possible to physically connect everyone around the world in a single postal territory.

* A designated operator (DO) is any organization that has been designated by a UPU member country or territory as a postal operator responsible for fulfilling part or all of the member's obligations arising from adherence to the UPU Convention and agreements, including the universal service obligations. A full definition can be found at: www.upu.int/uploads/tx_sbdownloader/glossaryStandardsDocumentsEn.pdf

The UPU's Financial Inclusion Technical Assistance Facility (FITAF) is undertaking a series of studies to investigate the role played by these factors in the uptake of inclusive financial services. In the first study of the series, we explore a key factor that helps Posts to attract, retain and grow their customer base – **trust in the Post**.

We hypothesize that **increased trust in the Post as an institution leads to increased uptake of postal financial services**. It also empowers and encourages customers to engage with the Post through multiple channels, including digital platforms.

We acknowledge that there is **no universal definition of the concept of trust**, or pre-defined measures to build trust, within the context of inclusive financial services. A USAID (United States Agency for International Development) report captures this, stating:

“Trust has different meanings in different geographies and even among different people, and touches upon complex emotional and psychological layers of user experience. **There is no straightforward technical intervention that is guaranteed to increase trust.**”

(Spencer, Nakhai, & Weinstock, 2018).

Through a mixed method of literature review, interviews and case studies, this paper explores **the basic tenets of trust in financial institutions, the role of trust in an institution to increase uptake of financial services and DFS**, and how these learnings from the formal financial sector might **apply to Posts**.

The paper is divided into the following sections:

- **An overview of postal financial services, and a Postal Trust Framework;**

- Identification of four factors enabling Posts to **build trust with their customers**, illustrated by **case studies**; and

- A set of **non-binding recommendations** for Posts and policymakers.

The intended audience for this paper is as follows:

Posts that **already offer DFS and wish to extend these services**, and Posts that **are in the process of deploying DFS** – allowing them to prepare strategies based on the Postal Trust Framework intended to build trust with customers, leading to increased uptake and retention;

Posts that are **planning deployment of DFS** – allowing them to reach out to countries **with similar regulatory environments** for knowledge exchange and peer-based learning;

Policymakers (government and/or regulator) – so that they remain aware of the role that Posts can play in achieving their **government's policy objectives, attaining human development goals** as defined in the UN Sustainable Development Goals, and **ensuring the broader socio-economic development** of their country;

Lastly, at a later stage, consultants who will **capture lessons learned** as the UPU's technical assistance (TA) projects reach their evaluation phase

ROLE OF TRUST IN INCREASING UPTAKE OF FINANCIAL SERVICES

In this section, we explore current literature on the need to build trust with customers so as to **increase uptake** and **encourage regular use** of financial services in general, and DFS in particular.

The section concludes with the Postal Trust Framework, which identifies trust-building measures, drawing upon findings from the literature review and the UPU's experience in the sector.

BUILDING TRUST IN FINANCIAL SERVICES

To understand the role of trust in the uptake of financial services, we refer to the 2018 Edelman Trust Barometer. The survey revealed an **overall decrease in trust in financial services** in the key markets surveyed after five years of growth.

Given this erosion of trust in financial services, and in broader formal financial institutions, respondents identified five measures that would serve to build trust with them: **easy-to-understand terms and conditions**; reliable **fraud protection**; easy-to-find product/service **information**; business **convenience**; and **access to real people** (Edelman, 2018).

The survey also finds that **human contact** ranks highly among customers' requirements when seeking a financial services provider. This human contact is especially important when dealing with the more vulnerable and underbanked segments of society, where customers may be less literate and therefore more reliant on advice from a trusted source, i.e. an employee of the financial institution.

This human contact, however, is increasingly being **augmented though digital channels**. Customers can choose to engage with financial service providers either through an agent at a physical branch, or via the Internet, by telephone, or using an application on their phone. Digital channels are beginning to be used to enable customers to carry out transactions that were traditionally handled over the counter by bank employees.

Using digital channels comes with its own challenges, and the uptake of digital financial services is suffering the same fate as the adoption of any new or emerging technology.

There is a play-off between **providing access** to digital accounts (such as mobile wallets) and ensuring **digital liquidity**, i.e. ensuring that people use digital funds for everyday use and do not habitually revert to the use of cash. The Bank for International Settlements (BIS) confirms this in a study which found that, in the face of increasing and continuing digitalization of payments, **cash in circulation is not decreasing in most countries** (Bech, Faruqui, Ougaard, & Picillo, 2018).

When it comes to the uptake of financial services, and specifically digital financial services, a common theme that emerges from the literature review is that **trust in an underlying institution and in the technologies used** is a major factor in **how fast customers adopt a specific product**.

This is echoed in an EY study which found that **“trust plays a large role in fintech adoption, as non-adopters choose to remain with traditional financial services because they trust them more [...]”**

(EY, 2019).

This is where Posts can play a critical role, given their proximity to communities, their brand strength – which is often drawn from being part of the government – and their ability to leverage a physical network to provide human contact when needed.

A POSTAL TRUST FRAMEWORK

Posts recognize the role that **trust in an institution** plays in the **uptake of services** – both traditional postal services and financial ones. They recognize that greater customer trust in the Post as an institution could lead to an increased uptake of financial services, through physical and digital channels.

To meet customer demands and remain relevant in a rapidly changing market, Posts are increasingly seeking to leverage digital channels in order to offer financial services. A recent Digital Economy Report published by the UPU provides evidence of this. The study found that, globally, the most commonly shared reason for launching digital postal services is to *“leverage the Post’s image and reputation as a trusted provider”*, with **83% of Posts** characterizing this as a “very significant” factor for digitization (UPU, 2019).

Drawing on the UPU’s experience of working with Posts to achieve their inclusive financial services strategy, and based on an assessment of existing literature, we have identified four measures to increase trust in Posts in general, and postal financial services in particular.

Leverage the postal brand

As a community-centric institution that has a high level of engagement with people, Posts in certain countries, but not all, enjoy a trust premium. To improve the uptake of financial services, Posts should tap into the trust capital that they have built up over the years.

This trust capital can be further augmented by the perception that Posts are not part of the “banking empire.” In some countries, Posts have strong and trusted brand recognition as being part of the government – although, in other countries, this might translate into a trust deficit.

Posts can take advantage of this trust premium, where it exists, to reach customers on a wide scale and become the financial institution of choice for customer segments such as welfare recipients, civil servants working in rural areas, and pensioners.

Offer financial, numerical and digital literacy skills to customers

Trust starts with a clear understanding of the financial products and services for which customers sign up. This clarity and understanding become even more important when the amounts are small, when customers have limited literacy or numeracy skills, and when they are not accustomed to using technology.

Capitalizing on their reach and presence, Posts can provide literacy programmes and human interaction to better explain products and services, as well as imparting basic financial skills to customers.

Ensure that Post-customer interaction is secure, simple and seamless

Customers must have simplified access to postal financial services, through multiple channels that aim to make their financial lives easier. Posts also need to make an effort to provide simple, robust and interoperable solutions.

Customers must feel that their information and money are kept secure using the latest tools and technologies. Posts must provide peace of mind and security to those who have little to lose and are extremely cautious in terms of the institutions that they trust.

Posts must also be mindful of their customers' privacy and adhere to data protection and customer privacy regulations.

Provide access to real people

Easy access to human interaction both at customer service locations and on the customer's doorstep are critical factors that help to build trust in postal financial institutions.

Leveraging their physical distribution network, which often extends to remote rural locations, and with the help of postal carriers, Posts have a natural advantage over formal financial institutions when it comes to building trust with their customers.

In the following sections, we explore how Posts leverage each of these trust-building measures to their advantage, using current examples and **early lessons learned** from the UPU's FITAF.

Through these examples, we demonstrate how Posts are **already leveraging** these critical success factors to build trust with their customers. We also emphasize how they serve as measures that Posts seeking to increase uptake of their financial services **might adopt, learning from their peers**.

Owing to an absence of granular data, this paper **does not use longitudinal, empirical data** to assess whether a specific measure has proven successful in building trust. Instead, the paper captures experiences of Posts where they have knowingly, or unknowingly, adopted specific measures that are designed to foster trust with customers.



FOUR FACTORS ENABLING POSTS TO BUILD TRUST IN POSTAL FINANCIAL SERVICES

Leverage the postal brand

Customers are more likely to access services from an organization that they trust, and Posts, like any other service-delivery organization, need to strengthen their brand image by **cultivating the trust of their customers** and society.

However, unlike their private-sector financial service counterparts, **nearly 90% of Posts worldwide are state-owned**. This intrinsically links a Post's brand image, and the trust that customers have in the Post, with that of the government. Depending on the country and context, this could lead to a **trust surplus or a trust deficit**.

This trust surplus or deficit also extends to a Post's financial products and services. Nearly 55% of all Posts offer government-to-person and person-to-government (P2G) payment services (UPU, 2016). In emerging and developed economies alike, the Post is often the **first point of contact for P2G and G2P interactions**.

Whether for paying government fees, obtaining citizen services, or receiving social benefits, Posts play a vital role as an **extended arm of the government**. The mandate of Posts to provide citizen services is a reliable indicator of a government's willingness to leverage its **postal network as a tool to achieve public policy objectives**. An example of this is India Post Payments Bank (IPPB), which helped the federal government of India to achieve its financial inclusion objectives, as seen below.

India Post helps to achieve the government's financial inclusion goals

India Post Payments Bank (IPPB) was set up in 2017 under the Department of Posts, Ministry of Communications, with 100% equity ownership by the Government of India. IPPB co-locates within and leverages the physical locations of India Post to deliver on its mission.

Drawing on this connection to the Post, IPPB linked the millions of postal savings accounts held by India Post with one of the most ambitious financial inclusion drives in recent times.

Acting as an arm of the federal government, IPPB was mandated to deliver on and ensure the success of the Pradhan Mantri Jan Dhan Yojana (PMJDY) programme.

The key expectations of the IPPB are to:

- Provide affordable banking services, especially for small account holders;

- Provide doorstep banking, mobile banking, and easy access to financial services for rural Indian households;

- Provide cutting-edge, interoperable and limited-literacy-friendly technological solutions to securely and seamlessly operate these accounts; and

- Steadily expand the service offering to provide other services, including investments.

The PMJDY programme was an intense drive to achieve universal banking access and bring ordinary Indians into the economic mainstream. At the time of roll-out, this was the biggest financial inclusion initiative in the world, bringing millions of Indian households into an inclusive financial system.

IPPB played a vital role in ensuring the success of the PMJDY programme.

Posts also play a major role in facilitating government salary and social safety net payments, and in serving underserved segments of the population, which renews their standing in society as trustworthy financial institutions.

The reliance of governments and civil servants on postal bank accounts adds to the legitimacy and societal standing of Posts. Examples are Pakistan Post and Egypt Post, which facilitate pension and civil service salary payments, as illustrated below.

Pakistan Post provides easy access to civil and military pensions

Pakistan Post operates over 12,200 post office locations throughout the country. These include 3,200 sites run and managed by the department itself, and an additional 9,000 extra-departmental post offices. These are normally outsourced in far-flung and remote areas to provide services to the masses.

Pakistan Post disburses pensions to the retirees of a number of organizations, including former military, postal, Capital Development Authority, and Pakistan Telecommunication employees. The Post thus acts as an essential link in the public sector in the country, especially since it caters to the needs of both civil and armed forces retirees.

During the 2018 financial year, Pakistan Post disbursed over 904 million USD to more than 1.6 million military pensioners. In addition, a further 70 million USD was disbursed to 74,000 pensioners from the other organizations.

Egypt Post facilitates government payroll payments

Egypt Post is one of the oldest governmental institutions in the country. It serves its customers through 4,000 retail branches, 12,000 point of sale (POS) machines, and 350 ATMs. The Post has 26 million active customer accounts, representing nearly a quarter of the country's population, including civil servants.

The Egyptian Ministry of Finance, with MasterCard as a technical partner, customized a government payroll programme to digitize salary payments to government employees across the country. Under the programme, nearly 4.6 million cards have been issued to government employees (Aad, 2019) and 108 billion Egyptian pounds is loaded annually onto prepaid cards, reducing the burden of paperwork as well as the operational costs of handling cash (Salazar & Marra, 2018).

Government staff no longer need to travel to specific bank branches in the capital or nearest town to collect their salaries. Since these salary cards are tied to virtual postal accounts, customers can use the nearest Egypt Post branch to withdraw their salaries free of charge or use an ATM for a small fee.

By bringing these government payments closer to the people, the Posts ensure that the postal network remains a relevant institution for the population, not only in terms of logistics, but also for financial services.

However, the customer categories to which Posts most often cater might have a different level of literacy to than of customers of formal banks, thus requiring Posts to offer a certain level of training and literacy to attract and retain customers.

Offer financial, numerical and digital literacy skills to customers

UPU studies have shown that, compared with formal financial institutions, Posts are more likely to provide accounts to individuals from financially vulnerable groups, **such as the poor, less educated, and those outside the labour force** (Ansón, Berthaud, Klapper, & Singer, 2013). Postal customers may not be as confident in using new technologies and digital channels to manage their financial needs, compared with customers of private banks.

Access to people, i.e. human contact, and to training is critical with regard to the needs of the less literate and numerate. Therefore, the provision of financial, numerical and digital literacy skills is a critical mechanism in building trust with customers, and in improving the uptake and usage of postal financial services.

The need for training so as to improve the uptake of digital financial services becomes even more relevant when a customer is **essentially asked to trust technology**, perhaps for the first time, to manage their financial resources.

With their extensive physical networks, Posts can provide a physical location where customers can ask their DFS-related questions, resolve issues, and learn how to use these new technologies effectively. To augment this, **postal carriers act as multipliers**.

Postal workers can teach people in rural areas how to use banking services and access various government-sponsored financial inclusion schemes. In India, for example, the India Post Payments Bank is training postal workers to provide basic financial information and guidance to customers in rural areas.

In developed economies, Posts have been offering structured financial literacy and awareness training for a number of years. As outlined in the example below, Japan Post Bank builds trust with young people and adults alike, through flexible financial education seminars held across the country.

Japan Post Bank wants to be the most trustworthy bank in the country

Japan Post Bank has the explicit objective of becoming “the most accessible and trustworthy bank in Japan”. It wishes to educate its customers early. In Japan, financial education and knowledge is cultivated from a young age. In primary school, Japanese schoolchildren open a postal savings account and deposit a small amount every month for six years.

In addition, instructors give lessons at primary and secondary schools using Japan Post Bank’s proprietary teaching materials. The goal is to help children develop good financial sense by teaching them the importance of money and how to manage it. There are specific products and services that are offered to younger Japanese citizens to bring them into the formal financial system from an early age.

To educate its adult clientele, Japan Post Bank continually provides information to help improve financial and investment knowledge, as well as understanding of market trends. Seminars are often organized in collaboration with other companies and take place in various formats and at times to suit customers who find it difficult to visit a branch on a weekday or during the day.

To ensure customer financial literacy and planning, these seminars are structured around “life plans that match our customers’ lifestyles”. In the first three quarters of 2019, Japan Post Bank held 2,615 seminars in 233 branches (Japan Post Bank, 2019).

Poste Italiane provides financial literacy training to young people

In collaboration with the Italian Ministry of Education, Universities and Research, Poste Italiane has held around 500 events aimed at promoting financial literacy. In addition, around 20 short seminars have been held in post offices in various towns across the country.

The Post also promotes the concept of saving as part of school programmes. The project stimulates young people to develop better knowledge of financial and economic topics. This initiative targets primary school pupils, and students aged 11 to 18. At the end of this educational path, students acquire a comprehensive understanding of the concept of saving, and are encouraged to act in a financially responsible way.

The students also benefit from an online information platform, run directly by the ministry, enabling them to gain even more in-depth financial knowledge. The project has been one of the most successful financial education projects implemented in recent years, and the intention is to train one million students by 2022.

Posts can also play a role in early financial education for children, building up their digital and financial literacy skills as they prepare for adulthood. Poste Italiane, for example, has been contributing to Italy’s National Strategy for Financial Education since 2015.

Training and customer literacy efforts might go a long way towards establishing the postal financial sector, but training alone may not be enough to retain customers; in addition, the technological channels used must be intuitive, simple to use and transparent, and must instil a sense of security for customers.

Essentially, customers must be assured that the channels – especially digital – through which they choose to engage and interact with Posts are secure, and they are not likely to lose their money to theft and fraud.

Ensure that Post-customer interaction is secure, simple and seamless

EY has found that, in relation to financial services, *“The foundations of trust are built on fulfilling the most basic expectation that consumers have of all financial institutions: to protect their money and identity”* (EY, 2016).

There is a clear demand and business case for Posts to provide **a robust and trustworthy financial services platform** that protects customers from fraud and theft. To meet this need, Posts are increasingly leapfrogging traditional technology adoption and maturity models to take **a mobile-first approach**.

However, this comes with the challenges of securing transactions, simplifying access and integrating services under a single window – all without sacrificing ease of use.

We find that postal DFS projects are increasingly focused on providing e-wallet and remittance services, as well as integrating existing applications into a single platform.

Ensuring security in accessing money is critical to gaining customer trust. Posts employ techniques that range from traditional chip and PIN cards, to biometric authentication, as outlined in the example below.

Egypt Post uses biometrics to ensure security for benefit payments

Egypt Post has automated the two largest conditional cash transfer programmes of the Ministry of Social Solidarity (MOSS). MOSS business priorities include enhancing transaction transparency, eliminating human errors, reducing the potential for leakages and, most importantly, ensuring that funds reach the correct beneficiary.

To address these challenges, Egypt Post issued nearly 2 million Visa-branded EasyPay cards to beneficiaries of the Strengthening Social Safety Nets programme, who can withdraw money from any Egypt Post ATM or at POS-enabled post offices.

These cards can be biometrically authenticated at POS and ATMs to ensure that only the beneficiary of the social safety net payment has access to the funds. This ensures that the right person has access to cash, thus avoiding benefit fraud, theft and proxy cash collection.

This feature has the potential to reduce gender-based violence, whereby a male family member could, potentially, collect benefits that are due to a female beneficiary. With the use of biometric authentication, the female beneficiary must authenticate and collect the payment herself.

In 2019, the Post transferred around 23.4 million USD per month to these 2 million card accounts.

In addition to security, **simplifying** the customer experience is essential in order to increase the uptake and use of any DFS solution. Linking complimentary products to offer multi-channel capability is one way to meet the growing needs of customers. In the example below, Benin Post links virtual accounts with physical payment cards.

Growing organically to offer DFS solutions often means that there are multiple legacy systems between which data cannot be exchanged. On their digitization journey and as their service portfolio grows, Posts move towards **seamless integration** and interoperability between products. The example below is drawn from Tunisia Post, which is integrating its core banking and legacy systems with support from the UPU.

Benin Post simplifies virtual and physical transactions for customers

To keep up with the increasing need to automate and increase the security of its operations, as well as catering to customer demands for e-banking services, Benin Post set up an ambitious programme to digitally transform its financial services.

With the support of the UPU's FITAF, Benin Post is embarking on its digital transformation journey with the creation of a mobile platform that simplifies the customer experience by offering a mobile wallet backed by a payment card.

Benin Post is collaborating with a fintech company which is working with several West African Posts and has developed an electronic money transfer platform.

Through this partnership, Benin Post customers will have a virtual account at the Post, linked to a Visa card and an e-wallet account. The entire customer portfolio, as well as transaction capabilities, is accessible using both standard feature phones and smartphones.

Tunisia Post seamlessly integrates e-DINAR with Postal Accounts

Tunisia Post relies on an online account platform that does not offer interoperability between the various financial products and services that the Post offers. With support from the UPU, the Post is working to offer a fully-fledged e-banking system which will allow customers to securely and seamlessly access a broad range of services through a single app.

The Post will also expand its DFS capabilities to allow app-based account opening through a simplified know-your-customer (KYC) process, and provide an e-banking space that enables customers to operate all their accounts (savings, current, e-DINAR) from one place.

As the first step, Tunisia Post has launched a postal banking app called D17. This mobile payment app provides all Tunisia Post customers with a virtual e-DINAR account, enabling them to manage their accounts, reload, pay loan instalments, send and receive money from one account to another, and pay various types of bill (La Poste Tunisienne, 2019).

D17 is integrated with Masterpass QR, which allows Tunisia Post customers to make payments to merchants that accept Mastercard seamlessly from their e-DINAR accounts.

In providing financial services, Posts need to take fiduciary responsibility vis-à-vis their customers, to ensure **customer data protection and privacy**. In some cases, these customer protection principles are self-regulated and voluntarily declared, or they may be enshrined in national regulatory guidelines.

In the United States of America, for example, a data protection bill seeks to ensure that “[financial services] *providers could not use data in ways that benefit themselves over their clients or sell or share clients’ data with third parties that don’t put the client’s best interests first*” (Medine & Murthy, 3 Data Protection Approaches That Go Beyond Consent, 2019). The European General Data Protection Regulation (GDPR), which was adopted in 2016, sets out similarly strict rules for personal privacy protection.

The Consultative Group to Assist the Poor (CGAP) recommends **an evidence-driven approach** towards customer data protection: *“a key first step is getting feedback from consumers about their personal preferences regarding privacy. To what extent does extensive information collection trouble*

them – or not? Do they care who sees their data (providers, government or neighbours)?” (Medine, Making the Case for Privacy for the Poor, 2016).

Customer privacy is relevant and pertinent to postal financial services. It forms one of the **basic tenets of building trust with customers** and is part of regulatory compliance. However, there is a **lack of evidence** to show that these topics are of concern for Posts’ customers.

This could be an avenue for future research and case studies by Posts wishing to explore all possible pathways to build trust with their customers.

While digitizing and securitizing Post-customer interactions, and providing training therein, are important aspects, the literature review and in-the-field experience have revealed that human contact is a vital element in retaining customer loyalty, and this is where **Posts have a natural advantage**.

Provide access to real people

By their nature, Posts have a **broad physical distribution network** and wide reach within a country. Posts can leverage these physical outlets and postal carriers so as to overcome a key barrier to the uptake of financial services, namely limited interest among banks and financial institutions to expand and service markets beyond large cities.

The outreach of traditional financial institutions, through their brick-and-mortar **branches, is not extensive enough to serve unbanked or underbanked customers**. While reaching out to rural communities

might be too expensive for individual financial institutions, it is part of Posts’ daily routine. This outreach advantage is especially marked in peri-urban and rural areas, where postal outlets are more common than bank branches.

With the increase in postal financial services, a number of Posts have found themselves with a **distinct geographic outreach advantage compared with formal financial institutions**. In certain countries, postal branches or outlets **exceed the number of bank branches**, as is the case in Sri Lanka, shown in the example below.

Sri Lanka Post

Sri Lanka Post leveraged its network of 4,692 post offices to roll out financial education and literacy materials. For comparison, there are 2,876 licensed commercial bank branches in the country (Central Bank of Sri Lanka, 2018). Sri Lanka Post is continually working to expand its postal services, especially in rural areas, and to increase its service quality.

For the government, the postal network is a key asset that links the government with society. Postal branches serve as centres for public information, financial literacy education, and community meetings.

Adding **VALUE**
to every country's
economy.



Country case study: Viet Nam

Vietnam Post (VNP) has been working since 2013 to broaden the social safety net in Viet Nam to bring citizens under government-sponsored insurance. VNP is authorized to work with the Vietnam Social Insurance Agency to collect social and health insurance premiums through its network.

Through postal carriers, the VNP collects social and health insurance premiums and transfers these to the respective national insurance agencies. As of December 2017, nearly 4 million people have participated in the voluntary social insurance programme, and the VNP network has collected over 100 million USD.

The VNP is in the process of expanding this service, leveraging mobile applications for postal staff with a grant from the UPU's FITAF. This expansion aims to further increase social and health insurance coverage to up to 20 million people, by encouraging people to participate in the insurance schemes as well as conveniently capturing their information through a mobile-based solution.

Posts can **cost-effectively provide a human contact** to explain the advantages of DFS and encourage the uptake thereof, as well as educating customers on how to use their digital devices. This human outreach is coupled with the Posts' ability to use their physical premises as an on-demand training and customer care centre.

Providing human contact gives Posts a major competitive edge over any single DFS provider or financial institution. The need to **reach trusted advisors quickly and efficiently is an important factor** when dealing with a segment of customers who have very small sums of money.

It is equally important when governments wish to increase uptake of inclusive financial programmes, such as PMJYD in India, or of mandatory health and voluntary social insurance in Viet Nam, as outlined below.

The network advantage **is slowly diminishing with increased uptake of DFS, an increase in independent financial service agents** and agent banking, and the **proliferation of microfinance and other institutions** that have a strong focus on rural areas.

Nevertheless, Posts continue to enjoy close proximity to communities and rural populations.

CONCLUSION AND POLICY RECOMMENDATIONS

As institutions, Posts hold a unique role in society. They were trusted over the centuries to deliver vital information and they continue to enjoy a certain level of trust to this day. As the nature of the postal business is changing, the time has come for Posts to realign themselves to serve the evolving needs of society.

Unlike their formal financial counterparts, Posts are **the institution of choice for unbanked and underbanked populations** around the world (UPU, 2016). Posts are able to reach out and serve this segment, so as to achieve the pro-growth policies of their respective governments and greater socio-economic growth.

To do so, however, requires Posts to refocus and reinvent their services in order to become affordable, accessible and customer-centred. Achieving these goals also requires trust, confidence and support from **policymakers and regulators**. To remain a trusted institution, Posts must **build and retain trust with policymakers, government and citizens alike**.

The following is a set of limited, non-binding recommendations for both policymakers and Posts to consider when designing or re-designing their financial services and DFS products and services.

FOR DESIGNATED OPERATORS

Building upon the above findings and case studies, and the Postal Trust Framework, we recommend the following for Posts:

Advocate for financial and postal regulators to ensure that the postal network acts as an enabler for digital financial inclusion

We echo the recommendations made by the International Telecommunication Union's Focus Group on Digital Financial Services, of which the UPU is a member: *"policymakers and other stakeholders are encouraged to leverage existing infrastructures and capabilities within their countries, in an effort to avoid duplication of costs. In particular, policymakers are encouraged to consider ways to use postal networks to support the DFS ecosystem"* (International Telecommunication Union (ITU), 2017).

This aligns with our findings in relation to trust-building measures to leverage the postal brand.

Offer customers a secure, seamless experience

Trust in a financial product and uptake of any DFS solution depends on the perceived, and actual, security of customer data, access and money. Customers need to feel that the Post is a trustworthy institution that can safeguard their limited finances and which works tirelessly to protect their money from fraud and theft.

In addition, access to DFS applications must be foolproof, with minimal complexity, yet ensure security. Having apps, documentation and a help desk in the local language goes a long way towards ensuring customer satisfaction and uptake.

Posts need to digitize their operations – both back office and financial services. We realize that this is often a challenge in the face of limited investment in the postal sector, combined with the limited revenue-generating capability of most Posts.

Digital security is a complex and fast-evolving topic that requires ongoing and continual investment, as well as forward-looking planning. However, with the right partnerships and with the trust of the government to provide citizen-centred services, Posts can rapidly turn their finances around to generate a surplus.

Posts that are in the early stages of their digitization journey could benefit from value-driven partnerships with more experienced organizations. We will explore this in more detail in an upcoming paper on the need for value-driven partnerships, with examples from emerging and more developed economies. This aligns with our findings in relation to trust-building measures to ensure that Post-customer interaction is simple, secure and seamless.

Invest in the financial literacy of customers

Customers in the postal segment are typically underserved, marginalized and often less educated than those of formal financial institutions (Ansón, Berthaud, Klapper, & Singer, 2013). Ensuring financial and digital literacy will go a long way towards establishing institutional credibility and will build trust through customer-Post interaction.

An ideal way to do this is to leverage postal branches, especially in peri-urban and rural areas, as a touchpoint for knowledge, assistance and training. Postal carriers can also be trained to provide basic technical support and train users through their day-to-day interaction.

This aligns with our findings in relation to trust-building measures to provide financial, numerical and digital literacy skills to customers.

Invest in strengthening human capital, technology and internal processes

To achieve the goals of building trust in society and with their customers, Posts need to be well prepared and possess the ideal mix of human capital, technology and other resources. There is a need to train and upskill postal employees to provide services and advice to customers. Back-office and technological infrastructure must be appropriate to the ambitions of the Post, including its outreach and DFS strategy.

This growth can be achieved in phases, with Posts learning from the experience of rolling out basic and entry-level products before expanding into more complex solutions. The phased approach also reduces the need for a large, upfront capital investment in technological solutions.

As a final step, and in support of transparency for the institution, internal control and risk management frameworks must be strong enough to assure customers that their resources are safe and in good hands.

This aligns with our findings in relation to trust-building measures to build upon the postal brand, to ensure that Post-customer interaction is simple, seamless and secure, and to use technology to protect customers.

Realize that going cashless or going digital is not for everyone

Poor, marginalized and vulnerable members of society are more reliant on cash than their economically better-off counterparts. Forcing a one-size-fits-all approach may not work for the range of customers served by Posts.

It is critical to understand the customer segments in question, and their demographics and requirements, and to tailor digital financial solutions that cater to their needs. This not only fosters trust between Posts and their customers, but also presents a low-risk operating model for Posts offering DFS.

Leaving windows open for cash-based transactions ensures that Posts can capture a wide range of customers from various socio-economic strata, and helps to minimize the growing digital divide.

FOR GOVERNMENTS AND REGULATORS

Posts can play an important role in furthering the socio-economic development of a nation. As an arm of the government and with a pre-deployed physical delivery network, the capabilities of Posts can be leveraged to address multiple human development challenges, including social and financial inclusion, literacy and education, healthcare, and the growth of micro, small and medium-sized enterprises to expand the economy.

However, for Posts to achieve these goals, there must be an enabling regulatory and policy support environment. If Posts are to fulfil their mission and serve the broader development needs of society, we recommend that policymakers – which includes both government and regulators – note the following:

Include Posts as a core partner in national development blueprints

Bringing Posts into the design phase for programmes that have a citizen-centred service delivery component could prove beneficial and reduce costs for governments. Posts have made a remarkable difference in acting as the service delivery arm for G2P interactions, including revenue collection, the provision of official documents, and financial inclusion of the underserved, to name but a few examples.

Policymakers ought to think of Posts as a pre-existing service delivery channel that can quickly and efficiently deliver services to citizens, with appropriate levels of investment in human capacities, infrastructure and technology. Doing so will allow Posts to generate revenue, rather than remain cost centres that put a strain on limited public funds.

Ensure an enabling environment to facilitate digital financial services

We endorse the recommendations made by ITU's Focus Group on Digital Financial Services (International Telecommunication Union (ITU), 2017), to encourage policymakers to create the necessary directives to foster an open, interconnected, interoperable and transparent digital financial ecosystem.

In order to promote the uptake of postal financial services and DFS products, there is a clear need for a conducive regulatory environment that is pro-digital finance for the entire sector. This enabling environment should also extend beyond financial regulations to encompass access to affordable technologies, for example by ensuring that smartphones, Internet access and data are accessible and affordable.

We recommend establishing proportional and risk-based regulatory measures, including accounts with tiered know-your-customer requirements. These risk mitigation regulations need to be augmented by a coherent, easy-to-access national identification scheme, which, backed by digital identities, will make customer acquisition easier.

Regulators also need to ensure a marketplace that prevents rent-seeking behaviour and establishes a level playing field for all competitors.

Ensure regulatory measures to build consumer confidence in digital finance and digital liquidity

To boost consumer confidence in DFS, we recommend regulatory measures for DFS transactions that afford the same level of consumer protection as in the formal financial sector. This might also lead to higher digital liquidity as more consumers choose digital over cash transactions.

To promote digital liquidity, regulators could establish guidelines to incentivize digital financial transactions, thus encouraging a move away from a reliance on cash. These incentives could include VAT deduction, discounts or cashback facilities when using digital cash and credit cards.

Regulators also need to consider adopting measures that help to achieve the broader public policy objective of promoting the growth of SMEs and micro-SMEs through the acceptance of digital payments. This includes providing a regulatory environment that promotes appropriate pricing structures and flexible business models that cater to the needs of small entrepreneurs.

Finally, there is a need to adjust deposit insurance for the digital age. This insurance should be focused on product and service types, rather than the channel employed to access them. Digital liquidity in mobile wallets and digital cash should be insured at an appropriate level against theft, fraud and cyberattacks.

FUTURE RESEARCH DIRECTION

As the DFS maturity of Posts improves, the following topics can be explored as potential areas for future research:

Multi-year country case studies to identify an increase in the number of accounts in specific socio-economic groups, or increased liquidity in DFS accounts, after adopting specific trust-building measures. Both an increase in number of accounts and increased liquidity could be considered proxy indicators of greater trust in the Post and its financial services.

Multi-year customer satisfaction and perception surveys could be carried out in specific target customer groups to see if their perceptions of trust in the institution change over time as specific trust-building measures are adopted.



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FITAF provides technical and financial resources to designated postal operators to design and deploy digital financial services to further advance financial inclusion and better meet the needs of unbanked and underbanked populations and small businesses.

More information is available at:

www.upu.int/en/activities/financial-inclusion/financial-inclusion-technical-assistance-facility.html.

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