Mobilizing domestic financial resources like savings is crucial for Asia’s developing economies. Savings are important because they permit investment, which in turn increases the productive capacity of an economy. They also play a significant role in financial intermediation in a sense that savings funds intermediated by the banking system can be used as credit to finance development activities. Unfortunately, due to different levels of financial sector development, access to financial services such as credit, savings, and payment services remain limited in developing Asia. For example, only 36% of adults in East Asia and the Pacific have formal savings accounts and 11% have access to formal credit, as of 2014.

Against this reality, Asia needs to explore other strategies and to improve financial access. In this regard, the role of the postal network is crucial. With more than 600,000 branches worldwide, post offices provide alternative infrastructure to rural populations to access a wide range of financial services that traditional financial institutions cannot provide. Considering the potential of post offices to expand financial services in rural areas, the development of a postal savings system may be a good strategy for developing Asian countries to increase financial inclusion, reduce poverty, and achieve higher economic growth.

Why postal savings?

The postal savings system or the use of the postal network to mobilize savings has its origins in 1861 when policy makers in the United Kingdom recognized the difficulty of including the less wealthy in the nation’s system of formal finance. At the time, banks only catered to the highly wealthy and had a presence only in the large cities. Allowing the post office to handle deposits was an affordable way to include more people than ever before in the financial system, giving people a venue for deposits outside the home. The rationale for the introduction of postal finance in 1861 remains at play today in emerging economies, where formal financial institutions tend to serve only the small number of very wealthy.

In Asia, the postal savings system became a vehicle for promoting a more balanced economic development over a century ago, by mobilizing savings and providing financial services to the poor and lower-income people. In Japan, for example, the postal savings system has long served the needs of middle, low-income, and rural people for financial services, and it has provided financing for public
capital investment. As early as 1875, the government’s post office began offering savings accounts and money orders. The range of financial products became ever expanded over the century that followed, including features such as insurance coverage. Owing to its expansive reach—the number of post branches performing financial functions was nearly double that of all other financial institutions combined in 2015—and its government-backed credibility, the Japan Post evolved into one of the biggest financial institutions in the world, holding a greater amount of deposits than every other private bank in Japan (Scher and Yoshino 2004).

Through this position of strength, the postal financial system was important for the modernization of Japan. Savings in the post bank were essential for projects including housing, infrastructure, and business development. These contributions created a virtuous cycle; all these factors made Japan wealthier, leading to higher savings deposited in the postal system, and allowed the financial system to invest in projects of ever greater scale and complexity.

In India, government-backed postal banks came into being in 1882, among the oldest of post banks in Asia. Upon independence in 1947, the Government of India began integrating the postal finance services into a long-term campaign to modernize. The responsibility of this effort came under the purview of the newly created National Savings Organisation in 1948. Because of the country’s large number of less wealthy people, the emphasis of the post bank has been to target the country’s many small savers. Although the banking system has increased its reach massively since, more is still needed. Of India’s 1.2 billion people, 40% of the adult population still does not have banking access. The postal service is going to play a powerful role in closing that gap because it is better primed than traditional finance to reach the rural regions. Out of 150,000 post offices, over 130,000 service the rural areas. This is over four times the number of rural banking branches of traditional financial institutions. In terms of number of bank accounts, India Post’s 238 million accounts outnumber any other single institution by far, but there is still plenty of room for growth compared to the reach of traditional finance in aggregate (India Department of Posts 2016).

**Role of postal savings in financial inclusion**

Asia seems to be in a natural position to promote postal savings because of the extensive postal network and infrastructure in the region that can serve as access points for delivery of financial services. Around 48% of post offices in the world—roughly around 320,000—are located in Asia (Figure 1). On average, every 72 square kilometers is served by a post office branch, a coverage ratio far greater than other parts of the world. The coverage area is not only a token presence. In fact, Asian economies enjoy good access to the full range of postal services such as direct delivery of mail to the home (Figure 2).

One advantage of the postal savings system compared to the banking system is its ability to use existing post offices to bring basic financial services to underserved areas and communities (Figure 3). By providing access to services such as deposits, payments, and insurance, post offices increase competition for the underserved segments, thus generating a positive impact on employment and supporting rural and regional economic development (Boon 2016).

Post offices also provide solutions to critical challenges in financial inclusion such as accessibility and affordability (Berthaud 2014). Around 32% of adults in developing Asia and the Pacific still do not have access to bank accounts, while more people remain unbanked, 55% in South Asia and 41% in Central Asia. In economies where postal accounts are
offered, roughly 12% of the population uses this service either exclusively or as a complement to traditional formal finance.

In general, women, the poor, and those who live in rural areas are most likely to use postal finance. As a result, the mixture of postal services with finance has long been seen as having high potential to bolster financial inclusion for those who tend to be naturally denied access to formal finance. Indeed, postal accounts are the second greatest contributor to financial inclusion, with over 1.6 billion people worldwide holding some form of postal account.

Evidence also suggests how postal finance can be used to address geographic, gender, and growth gaps brought about by financial exclusion (Ansón 2016). First, because the postal system can be far-flung, postal finance can bring financial inclusion to those who live outside major...
city centers and urban areas. Additionally, because postal finance has typically included more women, it can be a tool in addressing the gender gap. Last, postal finance can potentially be the first step in addressing economic inequality, as it trains the poor to take part in the world of commerce and banking, thereby providing more opportunities.

Although there is enormous potential, much of it is yet untapped. There is more room for growth, especially among emerging economies. Postal bank accounts are generally more prevalent in wealthier economies and wealthier emerging economies. That the presence of extensive postal finance tapers off in lower economic rungs signifies the untapped potential for the development of both the postal and financial systems.

From postal savings to post banks: The changing economics of posts

Traditionally, postal savings banks fall under the joint purview of central banks, ministries of finance, and ministries of post. As postal financial institutions developed over the years, alternative models have also emerged, ranging from a simple cash-merchant post office that collects savings, to a partnership with financial institutions, to an unlicensed postal savings bank, and finally to a postal bank providing a wide range of financial services (Figure 4). In some countries, postal finance takes the form of a joint venture between the private and public sectors. In other countries, postal finance has evolved over time, from post office savings banks to licensed postal banks. According to a database published by the Universal Postal Union in 2011, postal services in developed markets are mainly provided by a partnership between post offices and other financial institutions. In contrast, the majority of postal finance in developing countries is provided by post office savings banks or post banks.

In general, the evolution of various business models for postal finance is influenced by the extent to which the government is involved with the operations of providing postal financial services. Each model has its own advantages and their appropriateness depends on the situation of each economy. Each model also has its own advantages in mobilizing savings depending on the context.

For example, in a partnership business model, national savings organizations work with post offices to create financial products designed specifically to work with certain conditions (Scher and Yoshino 2004). This is an especially popular model in South Asia where there are cultural hurdles preventing people from joining banking organizations. By partnering with traditional finance, post offices can expand their financial coverage and gain specialized knowledge in running financial institutions.

Under a postal savings bureau model, units within a post department are created to handle small savings accounts and a limited range of other financial products. This type of institution is not meant as a substitute for private finance—and cannot act as one due to

Fig. 3 Direct postal financial inclusion

Source: Berthaud (2014).
Innovating Financial Inclusion: Postal Savings System Revisited

Fig. 4 History of providing access to transaction banking

Source: Boon (2016).

its limited breadth. Rather, it is meant to offer simple, convenient, and trustworthy savings institutions. By gathering a large repository of savings, these institutions can contribute to state development through lending and may be a valuable source of stability for the country’s financial system, as was the case in the Republic of Korea during the Asian financial crisis of 1997. These postal savings bureaus can grow and become more sophisticated institutions that provide full-service financial services. In some countries, this means becoming a public corporation post bank, as has occurred in the Philippines.

Since the 1990s, more alternative business models for postal finance have also emerged, characterized by strong private sector participation. A number of factors account for the changing economics of posts, including the falling mail volumes, increasing use of information technology, and regulatory developments such as market opening and liberalization. Of particular importance is the impact of competition on postal finance, which affects the way postal systems operate and the provision of postal financial services. For example, the idea of a postal institution run completely by the government prompts concerns from rival banks in the private sector arena, calling foul on the notion of there being a government-owned financial institution that may enjoy securities and benefits not accessible to private sector institutions. As a result, running and turning postal banks into joint ventures, or even wholly private entities, is a way to allay these concerns (Ansón et al. 2013).

However, finding the right balance is potentially troublesome. It is important to avoid affecting competition by favoring one private institution over the other. Furthermore, it is important to be aware of how the relationship benefits each partner. Terms that favor the government excessively limit the incentive for the private sector; such partnerships will have only limited impact. Conversely, favoring private institutions too much risks distorting competition and neglecting the public service rationale of postal finance (Berthaud 2012).

Making effective postal finance systems: Issues and challenges

While post offices have played an important role as a gateway for delivery of financial services, developing efficient postal finance is not easy due to a number of challenges.
Regulatory framework

Regulating a postal financial system presents one of many unique challenges. Although postal finance can be an enormously powerful presence in an economy, it can also be subject to inefficiencies and corruption. Therefore, good regulation that is properly designed and implemented is important to make sure that postal finance is both effective and accountable.

For example, making financial services available to all at low prices through strong government intervention is a worthy policy goal because of the benefits for financial inclusion. On the other hand, a government-backed financial institution like a national postal bank creates a natural monopoly. Because business is guaranteed for government postal finance, it is hard to disrupt and innovate. This could have a negative effect on traditional finance as it may crowd out existing organizations.

To preempt this problem, policy makers must establish an open and transparent regulatory framework for postal finance and design effective enforcement strategies to implement it. A postal finance system should be governed with transparent oversight that pushes it to innovate. An example from Indonesia of how this regulatory structure might exist is Bank Tabungan Negara’s relationship with Post Indonesia. Instead of including finance under the umbrella of the postal service, the bank exists independently and sells its products through post offices. By keeping its management distinct, Bank Tabungan Negara has an incentive to innovate independently. Moreover, it has a profit-sharing arrangement with the post. This encourages Post Indonesia to function as a check, as the two institutions are individually vested in the success of the financial product.

Efficient regulation is needed to ensure that the various business models of postal finance operate in a supportive environment. In cases where market failures prevent access to financial services, good regulations should identify the constraints and provide appropriate intervention. It is also important that regulations exist to guide the operations of postal finance, particularly in dealing with dramatic improvements in technology and financial innovation that can impact the delivery of postal financial services. With this regulatory principle, postal finance can coexist harmoniously with existing structures.

Implementing postal systems

Since postal finance is different from traditional financial services (e.g., banking), countries must be prepared to fluidly interface postal systems into the existing financial network. This is important to ensure that traditional banks and the post bank can handle transactions between each other and that post banks use the existing standards that allow consumers to transact in the open market. This means creating or joining a wide network of ATMs, implementing debit cards that can be used at stores, and having convenient branches that give customers the full range of banking services.

The Republic of Korea’s post bank is a good model of implementing cost-effective and efficient postal finance. Because of its quick adoption of financial technology and its tight integration of postal banking and its mobile phone network, customers can access postal finance on the back of the country’s mobile network. In Indonesia, the government is experimenting with so-called “branchless” banking, where customers access their accounts through handheld terminals distributed to post offices throughout the country. This is an affordable way of enhancing financial inclusion which relies on the dissemination of easily understood banking functions that do not require wholesale renovations of post offices and do not require the extensive retraining of personnel (ITU and UPU 2010).
Financial education and literacy

Although a postal savings system can bring the benefits of financial inclusion, it must be accompanied by a robust program of financial education to realize the full extent of that potential. In Japan, this knowledge base is cultivated from an early age. In primary school, schoolchildren open a postal savings account and deposit a small amount every month for 6 years. More nuances of finance are further elaborated upon throughout middle and high school. Developing financial literacy in this manner is useful, because it creates the knowledge base and breeds the habit of saving by getting children involved at an early age.

Developing such programs is a collaborative effort between multiple ministries. The collaboration could be formalized into an external council that handles these matters on an official and regular basis. These should be created with input from an economy’s finance, education, and postal authorities. That this collaboration is essential is further reinforced by the need for the reconfiguration of the postal workforce. All these authorities should work together to ensure that postal employees include those capable of financial service. Otherwise, postal systems should hire the needed labor to ensure that postal banks can handle savers’ deposits effectively and professionally.

It is important to emphasize that these policy directives for a successful postal system need to engender trust from those not acquainted with formal finance. Moreover, economies that aspire to expand postal financial services must ensure that the basic service is of high quality before evolving the postal bank in a direction in which it offers a more diversified and comprehensive portfolio of financial products (Ansón et al. 2013).

Regional cooperation

As a tool for financial inclusion, the provision of postal financial services is a public good with benefits that extend across countries. In a globalized world with increasing financial links, one challenge is to harness greater cooperation and integration to maximize the benefits of postal finance.

For example, one important area in which postal finance can contribute is in the use of the postal system as a channel for sending and receiving remittances. A key issue is the high fees associated with sending remittances through the formal banking channel, as well as the security problems related to sending money across countries. Providing migrants with a safe, efficient, and cheap channel to remit money is essential to promote greater financial inclusion among this marginalized group. Given the nature of cross-border remittances, postal finance can be an effective tool for promoting financial inclusion by strengthening cooperation among various postal networks across countries. For example, postal operators can agree to harmonize remittance fees or share best practices in promoting remittances through the post offices.

Cooperation is also critical to meet the challenges of increasing digitization and technological innovation for financial services. There is a need for financial technology to be systematically and periodically undertaken by producing payment instruments, standards, and best practices as solutions for other services such as credit and insurance. Similarly, greater cooperation in promoting ICT solutions and other innovations is needed to ensure that postal savings systems cope with the challenges of developing new products such as e-commerce and e-banking. For example, postal regulators, business, and other stakeholders can participate in partnerships promoting technological and institutional innovation for postal finance.
Conclusion: Time to innovate with postal finance

Postal networks have much to offer for financial inclusion, as evident in the evolution of the postal savings system and the various business models for postal finance in many Asian countries. To be sure, creating inclusive finance is not easy, as banks, the traditional source of financial services, continue to struggle in the current global financial environment. This calls for the adoption of innovative, adequate, and low-cost financial service delivery models such as the postal saving system.

With the many challenges facing the traditional banking system—from limited infrastructure to increasing complexity of banking operations—it is about time that postal finance take a more prominent role. Evidence suggests how access to even small amounts of postal financial services can have a transformative effect on the poor, not only to expand their incomes but to enhance their resilience to economic shocks as well (Berthaud 2014). Thus, postal finance needs to be further developed as a key tool for financial inclusion.

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