SADC Postal Financial Inclusion Guidelines

Acronyms & Abbreviations

ATM	Automated Teller Machines
AML	Anti-Money Laundering
CD	Certificate of Deposit
CRASA	Communications Regulators' Association of Southern Africa
CFT (or CTF)	Combatting the Financing of Terrorism or Counter-Terrorism Financing
DPO	Designated Public Operator
ERP	Enterprise Resource Planning
FAS	Financial Access Survey of the IMF
G20	Group of 20
IAS	International Accounting Standards
ICT	Information and Communications Technology
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRA	Individual Retirement Account
ISA	International Standards on Auditing
JV	Joint Venture
KYC	Know Your Customer
MFI	Microfinance Institution
MNO	Mobile Network Operator
MSME	Micro, Small, and Medium Enterprise
MTO	Money Transfer Operator
MVNO	Mobile Virtual Network Operator
NPO	National Postal Operator
NRAs	National Regulatory Authorities
OECD	Organisation for Economic Cooperation and Development
SACCO	Savings and Credit Cooperative Organizations
SADC	Southern African Development Community
SDGs	Sustainable Development Goals
SOE	State-Owned Enterprise
UFA	Universal Financial Access
UPU	Universal Postal Union
USO	Universal Service Obligation
USP	Universal Postal Service
WBG	World Bank Group

Definitions

1996 SADC Protocol: Oversees all aspects of transport, communications, and meteorology throughout Southern Africa with the intention of establishing systems for these sectors that function efficiently and productively, thereby promoting economic and social development. Through the Protocol, Member States agree to strategic goals and policies for an integrated network of transport, communications, and meteorology, with specific funding sources, regulatory mechanisms, environmental controls, and technical standards. The Protocol also outlines an institutional framework for its implementation, including a breakdown of committees and subcommittees, procedures, and duties, as well as systems for monitoring progress and addressing non-compliance with regulations.[1]

Anti-Money Laundering/Combatting the Financing of Terrorism (or Counter Terrorism Financing): Efforts by the international community to make the fight against money laundering and the financing of terrorism a priority. Goals include: protecting the integrity and stability of the international financial system, cutting off the resources available to terrorists, and making it more difficult for those engaged in crime to profit from their criminal activities.[2]

Automated Teller Machines (ATMs): Also known as a "cash dispensing machine," is an electronic telecommunications device that enables the customers of a financial institution to perform financial transactions, particularly cash withdrawal, without the need for a human cashier, clerk or bank teller.

Bank: Financial institution that accepts deposits from the public and creates credit. A license for a bank typically includes: Minimum capital, minimum capital ratio, 'Fit and Proper' requirements for the bank's controllers, owners, directors, or senior officers and an approval of the bank's business plan as being sufficiently prudent and plausible.

Communications Regulators' Association of Southern Africa (CRASA): An organization of communications regulators which focuses on the Harmonisation of the Postal and Information Communications and Technologies (ICT) regulatory environment in the SADC region in order to improve its Postal and ICT business environment and investment climate [3]

Deposit insurance: Deposit insurance is a measure implemented in many countries to protect bank depositors, in full or in part, from losses caused by a bank's inability to pay its debts when due.

Designated Public Operators (DPOs): Those National Postal Operators designated by governing bodies to offer a specified universal postal service to the public.

Enterprise Resource Planning (ERP): Enterprise resource planning is a business management software—usually a suite of integrated applications—that a company's management uses to collect, store, manage and interpret data from its business activities, including: Operations, Inventory and Asset management, Cash and liquidity management, Human resources management and payroll , cost accounting, sales/revenue management, vehicle fleet management, payment [4] to plan, budget, control and enhance organizational performance.[5]

Fair Access to Payment Infrastructure: Integration and access to national payment systems. Regional integration initiatives, such as SADC are among the driving forces for the modernization and the integration of payments and settlement systems.[6]

G20 Principles of Innovative Financial Inclusion: Set of nine (9) principles informed by the experiences of developing countries that have successfully adopted models to increase financial inclusion. These are: 1) Leadership 2) Diversity 3) Innovation 4) Protection 5) Empowerment 6) Cooperation 7) Knowledge 8) Proportionality 9) Framework. These Principles provide valuable insights that together form a set of conditions to spur innovation for financial inclusion while safeguarding financial stability and protecting consumers.[7]

G20/OECD Principles for Corporate Governance: Originally developed by the Organisation for Economic Co-operation and Development (OECD) in 1999, then updated in 2004, the 2015 revision of the Principles of Corporate Governance addresses emerging corporate governance challenges such as the increasing complexity of the investment chain, the changing role of stock exchanges and the emergence of new investors, investment strategies and trading practices. Building on the expertise and experience of policy makers, regulators, business and other stakeholders from around the world, the Principles provide an indispensable and globally recognised benchmark for assessing and improving corporate governance.[8]

Information and Communications Technology (ICT): ICT (information and communications technology - or technologies) is an umbrella term that includes any communication device or application, encompassing: radio, television, cellular phones, computer and network hardware and software, satellite systems and so on, as well as the various services and applications associated with them, such as videoconferencing and distance learning. ICTs are often spoken of in a particular context, such as ICTs in education, health care, or libraries.[9]

Know Your Customer (KYC): The process of a business verifying the identity of its clients. The objective of KYC is to prevent institutions from being used, intentionally or unintentionally, by criminal elements for money laundering activities. It also enables better understanding of customers and their financial dealings. This helps financial institutions manage their risks prudently. The term is used to refer to the financial sector regulation which governs these activities. Know your customer processes are employed by companies of all sizes for the purpose of ensuring their proposed agents', consultants' or distributors' anti-corruption compliance. [10]. In e.g. South Africa, KYC regulations are included in the Financial Intelligence Centre Act 38 of 2001 (FICA).

Microfinance Institutions (MFIs): Legal entities operating under a license of the financial regulator (Central Bank) to provide small or micro loans typically but not necessarily to unbanked micro entrepreneurs and consumers. The scope of financial services of MFIs is mostly limited to credit. In some cases, the license can be extended to deposit taking. Business models for MFIs vary..[11]

Micro, Small, and Medium Enterprises (MSMEs): MSMEs are enterprises whose number of staff, balance sheet total, and amount of annual turnover falls below certain limits. In South Africa's National Small Business Amendment Act 26 0f 2003, Medium-sized enterprises are defined as fewer than 200 employees, annual turnover of less than ZAR 64 million, capital assets of less than ZAR10 million, and direct managerial involvement by owners, while small businesses employ between 21 and 50 employees. The upper limit for turnover in a small business varies from ZAR 1 to 30 million dependent on the sector, and micro-enterprises and entrepreneurs are defined as businesses with five or fewer employees and an annual turnover of up to ZAR 100 000.[12]

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**.** y.[13]

National Financial Inclusion Strategy: Roadmap of policy and actions, agreed and defined at the

national level, which stakeholders follow to achieve financial inclusion objectives. NFIS provide an important opportunity to introduce an evidence-based, prioritized, better resourced, and more comprehensive approach to expanding access and usage of financial services. NFIS can harness the enabling foundations and drivers identified as critical to achieve Universal Financial Access, and also build on those measures to promote the uptake and use of a broad range of financial services. Successful strategies coordinate efforts with stakeholders and the private sector, define responsibilities among them, and state a clear planning of resources by prioritizing targets to achieve significant improvements in financial inclusion.[14]

National Postal Operator (NPO): The incumbent organization or entity managing the distribution of services with a network of post offices and providing postal services pursuant to applicable postal law. It is also known as the Designated Postal Operator (DPO).

National Regulatory Authorities (NRAs): independent institutions responsible for issuing licenses, overseeing market development and a fair level playing field for competition, controlling prices, resolving disputes, responsible for ensuring that products released for public distribution are evaluated properly and meet international standards of quality and safety**.**

One Stop Shop: a business or office where multiple services are offered; i.e., customers can get all they need in just "one stop"

Payments infrastructure relates to the hardware, software applications, networks and processes required to allow the clearing and settlement of payments from a payer (usually the sender) to a payee (usually the beneficiary). The ecosystem of the SADC payments infrastructure is made up of historic silos for retail, high value, mobile and card based transactions, with multiple payment schemes, payment system operators (PSOs) and Third Party Service Providers (TPSPs) and Payment Service Users (PSUs), including NPOs.

Post or Mail: Letters, postcards, printed matters, small packages and parcels

Postal Financial Inclusion: brings people excluded from access to the formal financial sector via bank branches or other channels into the formal financial system using the postal network as a gateway.

Postal Service(s) or Mail Service: The organization or system for physical transport and logistics of post or mail items

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 or Postal Banking: A range of basic financial services accessible at post offices of which the distribution is organized by the NPO

Postbank: (i) A brand or trademark of a licensed financial institution for financial services distributed by the NPO via post offices (alternative brands are: PostFinance, PostPay, CashPost etc.) (ii) 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.

Retail Financial Services: Retail financial services include inter alia products and services such as Savings accounts, Recurring deposit accounts, Fixed deposit account, Money market account, Certificate of Deposit (CD), Individual retirement account (IRA) or pension plans, Credit cards, Debit cards, Mortgage or Housing loans, Mutual funds, Personal loans, Time deposits, ATM cards, Current accounts, Payment accounts, Cheque books, Automated Teller Machines (ATM), Mobile money wallets, money transfers, Incidental insurance, Fire insurance, Burglary insurance, Travel insurance, Health or medical insurance, Funeral insurance, Liability insurance, Vehicle insurance, Life insurance. These services are also known as Personal financial services, and as Postal financial services when these retail financial services are offered at post offices.

Savings and Credit Cooperative Organizations (SACCOs): Licensed savings and credit groups owned, managed and run by its members who have a common bond, to which members are admitted after registration in accordance with the Sacco's by-laws. Objectives of a SACCO include but are not limited to: Organize, promote the welfare and economic interests of its members, provide a source of fair loans and reasonable rates of interest, promote personal growth through the introduction of new products and services that will promote the economic base of its members, ensures progress of its members and society through continuous education programs, on proper use of credit, reduction of poverty, human dignity and co-operation, and provides affiliation to the relevant National Co-operative Credit Union[15]

SADC Postal Strategy (2013-16): Strategic conferences with key imperatives to reinforce the role that all stakeholders in the Postal Sector can make as strategic partners to governments and key drivers of socio-economic development, bolstering financial inclusion, and in line with Universal Financial Access objectives. The postal strategy for SADC countries are considered a key subset of overall ICT strategy.[16]

Sustainable Development Goals: The Sustainable Development Goals (SDGs), also known as the Global Goals, are an inter-governmentally agreed set of targets relating to international development. On September 25th 2015, countries adopted a set of 17 goals to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda. Each goal has specific targets to be achieved over the next 15 years (until 2030).[17]

Universal Financial Access (UFA): An estimated 2 billion adults lack access to a transaction account (Global Findex 2014) and are excluded from the formal financial system. In response, the World Bank Group (WBG) with private and public sector partners set an ambitious target to achieve Universal Financial Access (UFA) by 2020. The UFA goal is that by 2020, adults globally have access to a transaction account or electronic instrument to store money, send and receive payments. Financial access is the first step toward broader financial inclusion, where individuals and firms can safely use of a range of appropriate financial services, including savings, payments, credit and insurance.[18]

Universal Service Obligation (USO) or Universal Postal Service (USP): The NPO's regulated duty to ensure a certain level of availability, accessibility and affordability to a basic range of postal services [19]

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1 INTRODUCTION

1.1 BACKGROUND

The SADC Postal Strategy 2017-2020 recognises as one of its key imperatives the need to reinforce the role that all stakeholders in the Postal Sector can have as strategic partners to Governments and key drivers of socio-economic development. In particular, the infrastructure and capabilities of the Postal Sector are potentially both enablers and drivers of socio-economic development.

Only about 42% of the adult population in the Southern Africa region is formally banked. "Postal financial inclusion" seeks to bring formerly excluded people into the financial system utilizing the postal network. It involves the delivery of basic financial services at an affordable cost (savings, deposits, credit, payments, insurance and money transfers) to large sections of disadvantaged and low-income groups without access to such services, and in this case, in the Southern African Development Community (SADC).

There are 2.9 post offices per 100,000 adults spread across the SADC countries hence using post offices, with an already established and existing wide branch footprint, represents a significant opportunity to improve financial inclusion.

Table 1:
Financial access points[1] per 100,000 adults

Country	Post offices	Commercial bank branches
Angola	0.5	11.7
Botswana	8.8	7.9
DR Congo	0.8	1.01
Lesotho	12.2	N.A.
Madagascar	4.2	2.1
Malawi	3.3	3.3
Mauritius	13.6	24
Mozambique	0.8	4.1
Namibia	9.4	12.8
Seychelles	0.9	54.9
South Africa	7.0	10.5
Swaziland	11.9	6.7
Tanzania (United Rep.)	1.2	2.5
Zambia	1.9	4.7
Zimbabwe	3.6	14.4
Data: UPU Statistics 2014, IMF FAS 2016		

[1] Not included are SACCOs, MFIs, ATMs and Mobile money agents.

The objective of this document is to present regional postal financial inclusion recommendations for the SADC for use by Member-States in developing their national policies, legislation, regulations and operations in advancing financial inclusion.

1.2 Objectives of the Recommendations

The recommendations are offered as a reference source to guide Member States in developing their national policies, legislation and regulations on financial inclusion. The recommendations are not prescriptive or binding on the Member States unless specific actions are required by existing policies or regulations. In this regard, the specific objectives of these recommendations are as follows:

- Provide guidance on how countries can advance financial inclusion by leveraging the usage of the existing post offices, bearing in mind their own country-specific contexts,
- Develop means to include the post offices in financial inclusion policies and strategies, in a manner that will advance the objectives of financial inclusion while ensuring the effective and efficient use of postal infrastructure,
- Achieve enabling national and regional financial inclusion policies and regulatory frameworks conducive to promoting and facilitating the use of the postal network to expand access to financial services,
- Enable and promote competitiveness in the usage of post offices as access points to financial services,
- Provide positive incentives to stakeholders in financial inclusion to roll out access through postal networks to basic financial services to underserved areas,
- Improve quality and scope of ICT based financial services via the post offices, especially, in the rural areas,
- Ensure transparency and accountability in the regulation and supervision of postal services and financial services as two distinct sectors to promote the role of the post office in financial inclusion, and
- Ensure a positive impact on the sustainability of the national postal operators in providing broad-based access to a range of digital, social and financial services.

1.3 Applicability

These recommendations are intended to be presented to the following stakeholders in the SADC Member States for consideration and possible application:

- Ministries responsible for Financial Sector Policymaking,
- Ministries Responsible for Postal Services, and Postal Sector Policy,
- CRASA Member National Regulatory Authorities (NRAs) responsible for Postal Sector Regulation,
- Financial Sector Regulators and Central Banks,
- National Postal Operators, and
- Other stakeholders involved or interested in Postal Financial Inclusion.

1.4 Structure of this Document

This document includes six sections, starting with this introduction. Section 2 provides general and regional context to the recommended guidelines presented in Section 4. The material in Section 2 is abstracted from the final report of the underlying study. Section 3 provides a reference to the CRASA Protocol on Transport and Communications which is the authority under which the proposed guidelines are developed.

Section 4 presents the proposed recommendations for postal financial inclusion and postal financial services in SADC. These recommendations are divided in policy, regulatory and operational recommendations. Policy recommendations are general in nature and typically apply to several organisations. Regulatory recommendations apply primarily to financial and postal regulators. Operational recommendations apply to national postal operators (NPOs) providing or seeking to implement postal financial services, as well as regulators who may need to oversee the outcome of these recommendations. Section 5 provides a brief list of CRASA recommended actions. Section 6 ends this document with brief conclusions.

The recommendations provided in this document are purely advisory and do not seek to mandate or require any action regarding postal financial services by individual SADC Member States.

2 Context

2.1 General Setting

Postal financial services and postal (savings) banking models originated more than 150 years ago, and have a long track record of providing the poor and lower income segments of the mass markets with access to simple and basic financial services such as money transfers and secure small deposit services. Today, an estimated 2,0 billion individuals visit the 500,000 post offices in the developing world one or more times per year for the conduct of simple cash payments, including an estimated 1 billion individuals for making deposits in savings accounts, payment of insurance premiums or loan installments. A significant part of them live in poor and rural communities, underserved by banks.

The post offices are a low-cost delivery channel for (basic) financial services to the poor. Strong points include their ubiquitous presence, low-threshold and familiar non-bank image. Postal financial services originally consisted of money transfer and small saving services as governments led initiatives on the basis of specific legislation bypassing financial markets.

Postal operators have seen major changes taking place in the last forty years. The postal services was separated from telecommunications, once a major source of revenue. Dense retail (agency) networks (eventually) became involved in mobile money operations. The liberalization and globalization of the postal sector has resulted in increased competition in many postal market segments and product lines once protected by monopoly. Finally, mail volumes have been severely compromised by technology, including email, social networks and instant messaging. Consequently, many NPOs in the developing world have sought strategic diversification of their business, entering into a process of transformation.

During the same period, the financial sector and postal financial services have changed around the World. A broad diversity of business models for postal financial services have emerged, including transformations into incorporated banks, partnerships with banks, and postal networks shared with banks. In many places, postal financial services are considered today an integral part of the financial services markets, and must, as a result, comply with applicable financial regulations.

Among countries which offer postal financial services, there is little standardization of the range of services offered. The most common products offered are domestic remittances, bill collection, international remittances, and government payments. Nearly all post offices worldwide offer some financial services. There are a number of business models that are used to offer postal financial services. These business models include:

Distributors (Agency Banking)

The NPO acts as a distributor of products/services from licensed financial institutions. The financial institutions are the contractual parties and hold client accounts. The financial institutions lead marketing and sales efforts. This model is present in about 85 percent of countries such as Mauritius, Malawi, Tanzania and Zimbabwe. The advantage of this model is that it requires less investments into technologies and lesser financial risk. A limited amount of capital is tied up and there is little market risk. On the other hand, this model limits the value captured, there are no investments from partner(s) and the model is highly dependent on the partner, its reputation and its willingness to advertise and market the services.

Integrators (Advanced Agency Banking)

The NPO distributes the financial products/services of one or several licensed financial institutions under a single "postal" brand as an integrated package. The Post's own financial services arm maintains client accounts, and leads the marketing and sales. The licensed institutions are not "visible" to the clients. The advantages of this model are that it maximizes the value of the NPOs' network, it provides the NPOs with a higher strategic value and position and maximizes the use of existing staff. On the other hand, this model is more complex, requiring "open" IT systems and strong marketing and negotiation skills. Partners are typically less committed and supplier conflicts arise and need to be managed competently. Angola and Namibia can be considered as an example of this model.

"Own" Postbank (Subsidiary)

A separate postal bank is part of the NPO's corporate group structure. The Postbank is expected to a licensed to provide financial services in accordance with the country's requirements. Acquiring the license may take a long time and is costly. The Postbank typically pays internal transfer fees to the NPO for use of its network. This arrangement provides the NPO with a high degree of strategic control, leveraging both network and staff. The Postbank can be prepared for outside investment via partnership or the stock exchange. On the other hand, equity will be tied up in the organisation. This model tends to lead to internal clashes between the two sides, and requires a high level of skills for the financial staff engaged in financial transactions, including regulatory compliance. South Africa, Zambia, Namibia are cases where this model is (partly) implemented.

Joint-Venture Postbank

Creation of a licensed banking operation with the NPO as a shareholder in the venture, and with distribution via post offices. The time to market is relatively short if the partnership is with an existing licensed bank as a major shareholder. The Joint Venture typically pays a fee to, or invests in, the NPO for use of the network and its brand. A benefit is that the joint venture deals with an established bank which provides compliance, management, back office and asset management. Conversely, governance of the Joint Venture can be complex and have limited flexibility when equity is tied up.

Retail Joint-Venture

A NPO and a Bank jointly own and operate the retail post offices as distribution channel. The bank controls the post office staff engaged in financial transactions. This is the case in Malawi. Each partner pays a commission to the joint venture based on business performance. This model creates a one-off large cash injection from the bank to the NPO which enables the NPO to invest in and improve its own logistics operations. The NPO then focuses on its core logistics business. Banks and other retailers are able to expand their outreach. On the other hand, governance of the network can be problematic. Typically, the NPO does not receive a share of the profit from financial services.

Each business model requires consideration of different legal and regulatory issues which are explored in the study report. The legal and regulatory framework influences not only the business model for pursuing postal financial inclusion, but also whether postal financial services can be launched at all.[20]

It is important to note that although there is a multiplicity of legal frameworks to take into account – postal, telecoms and financial services – through all of the business models, the post office is being included in the financial services sector and thus compliance with financial services laws and regulations, or strategies to amend them where necessary is key. The financial sector regulation, and how the post office fits into that regime, is thus and important consideration.

2.2 Regional Context

Financial systems in many African countries include formal and informal segments such as savings clubs, associations and cooperatives, each with distinct clienteles. 2 The absence of commercial bank branches for the provision of financial services in many areas (primarily rural areas) is driven in part by the reluctance of the formal financial sector to establish full-fledged bank branches in areas perceived as having higher costs and higher risks. As a result, all African countries have or had a very high proportion of financially excluded people, which reflects a lack of access to and use of formal financial resources. These gaps are currently addressed through agency banking whereby banks engaged retailers for the provision of access to payments or a transaction services, ATMs and self-service kiosks, through microfinance institutions and savings and loan associations widely represented in rural area and gradually expanding their range of services and mobile money agents.

At the same time, the African region as a whole has existing and relatively dense and long-standing postal networks. In many countries, postal operators have provided basic remittance and saving services for more than 100 years. Over 10 million Africans in SADC keep savings accounts via the post offices, and many more for (cash) payments.

The World Bank Group is in the process of defining financial inclusion support programs and development projects in most countries of the SADC region, together with 14 other development institutions. All SADC Member States, except Botswana, have official membership in the Alliance for Financial Inclusion, often through their financial regulator. Each has agreed on a national financial inclusion strategy. The strategies and their ensuing plans focus on increasing financial inclusion, but strategies do not yet refer specifically to leveraging the existing postal networks to increase financial

inclusion. The potential of postal operator to increase access to transaction accounts must be highlighted more prominently.

Only about 42% of the adult population in the Southern Africa region is formally banked. There are over 3,600 post offices and 1,850 postal agencies spread across the SADC countries – hence using post offices, with an already established and existing rural branch footprint, represents a significant opportunity to improve financial inclusion.

The NPOs s in SADC are duly constituted and have the appropriate legal and institutional frameworks to provide traditional postal services. Some countries, like Lesotho, have policy guidelines to include the post office in financial inclusion – but no legislation underpins that. In addition, the approach to direct regulations (classic command and control), delegated regulation, self-regulation and refraining from regulation differ across countries. The study underpinning these recommendations examines the regulatory models for ICT and finance in each member state and the key policy, legal, regulatory and institutional structures that may enhance provision of financial services by NPOs.

It is also well established that NPOs are suffering from significant drops in mail volumes resulting from the use of digital communications and liberalisation. Diversification through the offer of financial services can be a sustainable strategy for these postal operators, reducing dependence on markets/products that will not grow.

Challenges to the successful introduction of postal financial services in a postal network are numerous and well documented. Key challenges include:

- Compliance with appropriate financial and banking regulations,
- The ability to negotiate mutually-beneficial agreements with financial service providers, as appropriate,
- The ability to introduce skilled and experienced employees, managers and information systems,
- Sound and transparent accounting, and
- Competition from regulated and non-regulated private enterprises.

3 SADC PROTOCOL ON TRANSPORT & COMMUNICATIONS

The 1996 SADC Protocol is the overarching authority for Member States' policies in the area of postal financial inclusion. Article 11.5 (Operational Standards and Procedures) provides that "Member States shall endeavour to adopt harmonised operating regulations, procedures and quality standards to promote inter-operability based on the norms laid down by the UPU, in particular with regard to a) international postal service; b) financial services, including postal and money order services…"[21]

Although technically focused, Article 11.5 envisages a role for the postal operators in the provision of access to financial services. Furthermore, the SADC Postal Strategy (2013-16) recognises as one of its key imperatives the need to reinforce the role that all stakeholders in the Postal Sector can make as strategic partners to Governments and key drivers of socio-economic development, bolstering financial inclusion, and in line with Universal Bank Account Access objectives.

"Appropriate access to financial services can empower individuals, particularly lower income people, allowing them to better participate in the economy, actively engage in their own development and protect themselves against economic shocks."

"The approach to financial inclusion should not be just about ensuring that financial services are accessible to all but it should also take into account the other policy objective of maintaining financial stability, protecting consumers and promoting financial integrity. Pursuit of these objectives and the resulting trade-offs must be balanced to achieve responsible and sustainable advantages. As we strive to build a better life for all our people, let financial inclusion be part of our efforts."

- *Speech by Finance Minister Nhlanhla Nene SADC Financial Inclusion Indaba, SADC 2015*[22]

A 2016 SADC Financial Inclusion Strategy Workshop concludes that financial inclusion should focus on two pillars of enhancing digital payments within and between countries and creating an enabling environment for SMEs and small agricultural players to access credit. The infrastructure and capabilities of NPOs can potentially be enablers and drivers of digital inclusion and socio-economic development.

SADC's goals of promoting postal financial inclusion, derived from the SADC protocol are aligned with the Universal Financial Access (UFA) goal that by 2020, adults, who currently are not part of the formal financial system, will have access to a transaction account to store money, and be able to send and receive payments as the basic building block to manage their financial lives. These recommendations seek to assist Member States to develop postal financial inclusion strategies that take the region close to achieving the objectives of the SADC Protocol and the SADC Postal Strategy, and the UFA goals, amongst others.

4 POSTAL FINANCIAL INCLUSION RECOMMENDATIONS

4.1 BACKGROUND

The following policy, legal and regulatory recommendations recognise that SADC countries are at different stages in the development of their financial inclusion strategies, and the range of financial services offered by National Public Operators (NPOs). The recommendations identify the requisite key policy, legal and regulatory, and operational structures that may enhance the provision of financial services by the NPOs in their respective countries. Thus, the goal of these recommendations is for SADC Members to use them in developing their national policies, legislation and regulations on financial inclusion. Furthermore, they can be used to strengthen SADC Members' ICT regulatory frameworks in order to prepare the post office for its participation in financial inclusion based on a country's needs. The recommendations are supported by the CRASA Report on Postal Financial Inclusion which in summary:

- Provides an overview of the key issues and business models that NPOs can employ to provide financial services,
- Identifies and assesses key regulatory issues that need to be taken into account in the development of the financial inclusion policies which include the post office,
- Provides background and best practices on key policies and model laws at a global and at an Africa-wide level as well as in SADC. These are applicable to all SADC Member States, and
- Considers the laws and regulations that would be relevant to an NPO providing financial services – and the extent to which the SADC frameworks enable such service provision; and sets out recommendations with respect to harmonization of SADC policies, laws and regulations.

4.2 PRINCIPLES

The Postal Financial Inclusion Recommendations presented below are based on the following principles:

- **Accountability and transparency** - Create an institutional environment with clear lines of accountability and coordination within the NPO and across relevant government departments
- **Cooperation** - a broad-based government commitment to postal financial inclusion to increase access to financial services; also encourage partnerships and direct consultation across NPO, government, business, and other stakeholders
- **Proportionality** – Regulation and Policy should be proportionate to the financial inclusion challenge that it seeks to address. Regulators should only intervene when necessary; and the remedies should be appropriate to the risk posed, and costs identified and minimised.

4.3 POLICY RECOMMENDATIONS

4.3.1 Promote an Evidence-Based Approach

CRASA Regulators should collect data to support proportionate and evidence-based postal financial inclusion policy, which in turn maintains the safety and soundness of the financial system. This will ensure that any proposals and interventions made are suitable for a country's national context its institutional framework, and the capacity of its NPO. All regulatory action taken in relation to the NPO should be based on proper research and the collection of relevant and accurate data.

As noted by in the G20 Principles, a lack of data however, need not necessarily delay the introduction of new services and business models. As a result, regulators may decide in certain cases to use available data as sufficient evidence in order to strike an appropriate balance between safety and soundness on one hand, and growth and development on the other.[23]

Transparency and Good governance are key. NPOs should submit standardised reports on a periodic basis (at least annually). There must be full cost transparency at the NPO-level in order to enable downstream postal financial services transparency as well.

4.3.2 Promote a Competitive Environment

Today, NPOs must operate in a highly competitive environment against private couriers, logistics companies, communications providers and financial institutions. In order to compete effectively, and from a regulatory standpoint, NPOs need the ability to introduce new products and services efficiently. Policy and regulatory arrangements that establish the groundwork for competitive and market-based approaches are critical for delivering sustainable improvements in access. Policies, supported by the regulatory framework, should allow NPOs to go into strategic partnerships in a prudent and phased approach as follows:

- Those that do not offer any type of financial services at all, or offer only paper money orders, could become agents or cash merchants for deposit-taking institutions (banks, MFIs, SACCOs, etc.) and develop towards b)
- Those offering basic agency banking or cash-merchant services such as G2P payments and bill collection could consider to prepare for partnerships with one or more banks in which account opening and a broader range of distribution of financial services is involved
- Those that already offer certain account-based financial services (e.g. savings, checking accounts) directly should be required to formalize the provision of such services in compliance

with financial sector regulations through application for the appropriate licence from the financial regulator (central bank), which could be seen as a positive move for improved consumer protection.

4.3.3 Include Post Offices in National Financial Inclusion Strategies

SADC Member States are in the process of developing and implementing their own National Financial Inclusion Strategies. CRASA Members should participate in the policy and strategy development processes in their capacity as sector regulators. Post offices should be included in financial inclusion strategies.

- **Market Regulation -** In instances where there are gaps in financial services access and post offices present a potential to fill these gaps, policy and regulation should identify the constraints and provide appropriate intervention enabling the post offices to become active in distribution of basic financial services.
- **Fair Access to the Payment Infrastructure** - SADC countries should promote the NPO's fair access to the payment infrastructure, including connections to relevant pre-established operations/money transfer systems.
- **Universal Service Obligations (USO)** - The postal services USO regime must be implemented effectively. This regime should be transparent and should not lead to unfair cross subsidies when post offices provide financial services.

4.4 Regulatory Recommendations

Member States recognize that postal sector regulation fundamentals need to be in place to enable NPOs' effective participation in financial services. To that end, CRASA Members (i.e. postal sector regulators) reiterate their commitment to taking measures to liberalize the postal sector and support such market liberalization with a robust postal sector policy and regulatory regime which promotes the principles of accessibility, transparency and cooperation and proportionality. In addition, Members agree on the need to facilitate postal financial inclusion measures under current regulatory regimes and to cooperate with their financial sector counterparts with the aim of using postal networks to promote financial inclusion.

The regulatory framework for postal financial inclusion must take into account the need for postal sector reform on one hand, and the need for a competitive financial sector landscape on the other. Thus, the regulatory framework must acknowledge and facilitate the achievement of financial inclusion regulatory priorities, including:

- Continuation of postal sector reform including deregulation or liberalization,
- Adherence to applicable international standards,
- Implementation of conditions for the use of post offices as bank's agents as a customer interface,
- Promotion of market-based incentives to achieve the long-term goal of broad interoperability and interconnection,
- Enforcement of an appropriate, flexible, risk-based AML/CFT regime, and
- Promotion of a clear regulatory regime for electronically stored value.

4.4.1 Coordinate Roles, Responsibilities and Consultation Framework Between Postal and Financial Regulators

SADC postal regulators recognize the limits of their mandates (postal regulation, and for some, ICT regulation). It is acknowledged that financial services regulation is beyond CRASA members' scope. As such, the recommendations, as indicated previously, seek to map out the manner in which regulators of the postal sector take action to promote the fair, transparent and active participation of post offices in the financial sector to promote financial inclusion. The objective is to coordinate efforts to realize financial inclusion using post offices with the regulator (or in some countries regulators) concerned with financial regulation such as savings products, deposit products, and remittance products.

To that effect, a clear consultation framework between postal and financial regulators must be put in place and postal and financial regulators must consider legislative amendments, as may be required – e.g. with respect to the establishment of agency banking in post offices, or Post Banks – and to bring postal financial services fully under the scope of financial regulators. In recognition of this, SADC postal regulators will support their financial services counterparts to enable a coordinated approach to postal financial service regulation.

4.4.2 Ensure Compliance with Financial Sector Regulations

NPOs must provide financial services in compliance with financial sector regulations. This typically requires a paradigm shift from historic postal legislation/regulations. NPOs have typically operated financial services outside the formal financial sector and enjoyed some form of exclusivity or preferential conditions. What is called for is close collaboration between postal and financial services regulators.

- As full participants in the financial sector, NPOs offering postal financial services need to acquire the appropriate licenses (e.g. agency banking, payment agent, deposit-taking micro finance institutions, or a banking license for an adequately capitalized subsidiary of the NPO or for a joint-venture.)
- Regulators should guide and supervise the NPO's financial partner selection process so that it is done fairly and properly in accordance with public procurement regulations, and to ensure that the NPO engages with responsible financial institutions.
- Regulators should consider requiring NPOs offering any type of financial services to use of personal identification documents/cards as an essential element for access to formal financial services, consistent with financial regulations.
- It is important to ensure that financial services provided by NPOs are not misused to bypass mainstream financial services regulations. As a result, NPOs must comply with financial KYC (and applicable AML) requirements. Regulators may adapt KYC procedures to be used by NPOs in proportion to the type and value of services distributed.

4.4.3 Develop Proactive Regulation in Anticipation of Increased Scope of Postal Services

CRASA Members should take proactive measures to take into account future postal financial services regimes in their countries. In so doing, CRASA members should put in place measures – license conditions, regulations, codes – to facilitate and encourage

- The compliance of post office equipment, technology, safety and security with financial regulator's requirements, and
- The development of a licensing framework, led by financial services regulators, which enables the NPO to operate remittances on a transparent and fair level playing field.

4.4.4 Require a Clear Licensing and Accounting Regime

Services aimed at financial inclusion through postal outlets may differ in some operational characteristics from mainstream financial services but not in their principles. Member states should put in place a clear licensing regime for NPOs providing or seeking to provide postal financial services, with no preferential treatment.

Regulatory accounting and account separation requirements should be imposed on NPOs. Regulatory accounts provide information for several purposes: to enable NRAs to adopt decisions related to the universal service, for calculation of net costs of the universal service obligation, to ensure that universal service tariffs comply with any prevailing tariff regulations, and to monitor fair market conditions.

- Due to the broad range of applications of regulatory accounting information, SADC NRAs may require specific information from regulatory accounting. Therefore, it is important for them to be able to determine the scope of regulatory accounting and the ability to specify cost allocation rules. The scope of regulatory accounting of the designated universal service provider(s) should cover non-universal services and non-traditional postal services, in addition to traditional postal services.
- Each Member States should determine the costing method (subject to ongoing change control procedures) and appropriate rules for separated accounts

4.4.5 Consider Eliminating Exclusivity

Regulators should consider eliminating service exclusivity (or pseudo and quasi monopolies) in the provision of postal financial services, especially in the case of a postal network of a relative significant size. This would be less important when the postal network is relatively small compared to the existing commercial financial infrastructure (branches, ATMs, etc.). Exclusivity refers to remittances with only one MTO (e.g. Western Union), or one (post)bank which sells only its own, limited range of financial services, or the NPO exclusively selling postal money orders.

Exclusivity cannot occur if the network is large because a potentially dominant position in distribution would distort competition. Postal regulators and financial regulators must consult and coordinate the development of a plan to wind down exclusivity and require the network to be sufficiently open for interoperable services.

4.5 Operational Recommendations

The following recommendations are operational in nature and are intended for implementation by the NPO. The policymaker and regulator may need to monitor the NPO's attainment of the objectives set out in this part of the recommendations.

4.5.1 Implement Financial Reporting and Accountability

One of the issues typically encountered with poor management of postal financial services is the co-mingling of financial services moneys with money belonging to postal operations. In egregious cases, deposit money belonging to customers has been used to pay staff. Often, these conditions exist because there is a lack of data availability and accountability. Timely, accurate and complete information is the foundation of the development of sound postal financial services. Postal regulators should require that National Postal Operators (NPOs) provide the data and required accountability as part of their task and as prerequisite for the NPO to be recognised as part of the national agenda for financial inclusion. Bearing this in mind, NPOs and regulators should ensure that:

- Processes are in place for timely and periodic reporting, accountability and transparency, and audit compliance with segmented accounting for postal and financial services.
- The NPO should ensure timely and periodic reporting of Financial Inclusion indicators and key management indicators.
- Independent audits of financial statements should be conducted in accordance with IFRS. Such audits must include compliance with IFRS 8 (previously IAS 14) on segmented accounting, in particular for the postal services and financial services business lines. Audits must furthermore consider compliance with laws and regulations in at least two different sectors (postal and financial) according to ISA 250.
- Audits must include an assessment of the calculation of the net cost of provision of the postal universal service obligation as defined in the applicable Postal Law and regulation.

4.5.2 Maintain Good Governance and Good Management

It is key to maintain good governance between the NPO and its financial services partner(s) (subsidiary, joint venture, or independent), regardless of the business models or combination thereof adopted in a country. A few NPOs have created a separate legal entity for their financial services, often a subsidiary of the Postal Operator either fully or in part. The precise model to be adopted is a matter for NPOs in individual Member States to determine based upon their individual national needs and prevailing socio-economic conditions.

4.5.3 Prepare and Submit Business Plans

NPOs must demonstrate that they have the ability to develop compelling and viable plans for a sustainable business continuity of which proposed financial services are a part. This is critical to enable them to compete effectively in the financial services space, while retaining their role in terms of the provision of postal services. Given this, Postal Regulators must require NPOs to develop a corporate strategy and medium-term plans demonstrating viable overall business continuity and as basis for effectively expanding into financial inclusion.

- Postal regulators must require comprehensive, viable business plans from their NPOs. These plans must include the development of the NPO as a whole, versus merely compiling a wish list of advanced technology. These plans must identify the rationale, added-value and impact of the provision of postal financial services on financial inclusion in a competitive financial market.
- Each business plan must comply with the G20/OECD Principles for Corporate Governance. The plan must seek the cooperation and coordination of Postal regulators, NPOs and postal stakeholders with the financial inclusion stakeholders to expand access and increase diversity in their financial ecosystem. In particular, the business plan should refer to and comply with:
    - Principle #2 of The G20 Innovative Financial Inclusion Principles, Diversity: Implement policy approaches that promote competition and provide market-based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance), or a “One Stop Shop,” (see below) as well as a diversity of service providers. On a broader level, the diversity of the financial access landscape benefits from leveraging the existing postal network for additional access options.[24]
    - Principle #6 of The G20 Innovative Financial Inclusion Principles, Cooperation between government entities: Create an institutional environment with clear lines of

accountability and co-ordination within government and also, encourage partnerships and direct consultation across government, business and other stakeholders.

- Principle #1 of The G20 High-Level Principles for Digital Financial Inclusion, Promote a Digital Approach to Financial Inclusion: Promote digital financial services as a priority to drive development of inclusive financial systems, including through coordinated, monitored, and evaluated national strategies and action plans.
- Principle #4 of The G20 High-Level Principles for Digital Financial Inclusion, Expand the Digital Financial Services Infrastructure Ecosystem: Expand the digital financial services ecosystem—including financial and information and communications technology infrastructure— for the safe, reliable and low-cost provision of digital financial services to all relevant geographical areas, especially under-served rural areas.

- Eventually, the business plan should contemplate the development of a so-called "One-Stop Shop." Experience shows that to reach traditionally un-served populations, expanding to other banking services beyond branches and expanding the range of financial service providers and products, is essential. (One-Stop Shop.)

4.5.4 Ensure Customer Focus

The ideal postal financial operation should be committed to operational excellence to enhance growth through competitiveness. As with any modern enterprise, the operation should be customer-focused, meaning 1) understanding the needs of its customers and providing needed services, and 2) marketing to, and educating its potential customers. There are three major markets which need to be addressed to achieve successful financial inclusion:

- Low-income mass market and MSMEs such as the un(der)banked and excluded, workers' families, rural citizens and smallholder farmers, sole traders and artisans, social grant recipients, public service staff and military, financially illiterate, and children and youth,
- Migrant families who are recipient of remittances and goods/parcels sent home, and
- Migrants desiring to send money home in a secure, fast manner, with low, transparent costs.

NPOs do not have a tradition in competing for clients, given their history as monopolies. Promoting financial services and adapting them to the needs of the different segments of the population is however required. NPOs who have successfully developed financial services (Morocco) or want to compete against banks (Senegal) are focusing on marketing.

Consumer protection is also an important element of customer focus. Trust is key to the Postal "brand", especially in less informed populations in rural areas. NPOs must ensure that trust is maintained through financial operations, advertising and communications. Opening hours/days should be convenient to customers and possibly extend beyond typical postal hours.

"Know your Customer" (KYC) for financial services will require stringent application of proper information collection, validation and storage processes. The postal regulatory framework should, in anticipation of this, facilitate the post offices (staff/tellers) being able to handle KYC requirements in addition priority should be placed on putting in place strategies to fast track address rollout challenges to facilitate security and safety concerns.

4.5.5 Empower Employees and Customers

NPOs should include in their business plans, and undertake activities to empower their employees through staff training on customer centricity and protection, new products, developing financial

management capacity, and providing financial education. NPOs must ensure consumer protection because of the solidity of its operations, not because of its status as a state-owned entity. As such,

- The provision of financial services via the Postal network requires a new set of skills and capabilities, including computer literacy, training, customer service, and financial literacy. This will also include the introduction of a digital platform linked with payment systems, e-commerce/e-government portal, combined with an informative website,
- NPOs must develop their financial management capacity, especially risk management, cash/liquidity management, accountability, audit, use of ERPs, product profitability, and cost allocation,
- NPOs should provide financial education to their employees regarding customer centricity including crystal-clear transparency with respect to all products provided, indicators or how to compare products, consumer protection, explaining risks or non-risks involved in financial products, how to save and use cashless services,
- Employees should be trained to focus on "Know your Customer" (KYC) principles for marketing, product disclosure and the identification of risks,
- This will require the stringent application of proper information collection, validation and storage processes,
- Postal regulators should facilitate the ability of NPOs to handle KYC requirements and facilitate changes required to alleviate security and safety concerns, and
- NPOs should provide customer education through e-learning and learning sessions at post offices.

4.5.6 Encourage Innovation

As part of their business plans, NPOs providing or seeking to provide postal financial services should seek innovation including leveraging information technology, developing relevant new products and infrastructure. The recommendations thus provide that:

- In view of moving to cashless and digital financial services, NPOs need to be equipped with basic ICT, connectivity and security. They should have in place secure logistics for cash, consistent with telecommunications regulations especially if engaged in digital and mobile financial services,
- R&D/innovation resources are scarce in the postal sector. CRASA and regional organizations should promote joint innovation efforts in postal logistics and retail financial services, and
- Member States and NPOs should explore and take advantage of support that can be granted by international and non-governmental organisations for the development of financial inclusion.

4.6 Regional Integration

The power of a common policy and regulatory framework for postal financial services in SADC could enhance the ability to integrate cross-border postal financial services and facilitate commerce in the SADC countries. This might enable seamless transfer of money, payments or remittances from one country to another. This type of regional integration would enhance and magnify the benefits of in-country postal financial capabilities.

5 CRASA ACTIONS REGARDING THESE RECOMMENDATIONS

CRASA should actively encourage the implementation of these recommendations by Member States. In so doing it should, in line with the SADC Strategy and the CRASA Constitution, promote the exchange of information between member countries on postal financial services practices and on the benefits, potential business models, and regulatory requirements of modern postal financial services. This would include:

- Developing a permanent CRASA activity to assist with the development of postal financial services within member countries,
- Developing a regional reporting system designed to collect timely, accurate and complete information on each member's current and planned postal financial services. This reporting system could be integrated into the SADC ICT Observatory Initiative currently being developed, and
- Periodically reporting on current and planned postal financial services in each member country and disseminate this information to relevant governmental and non-governmental organisations.

CRASA should furthermore encourage a regional dialog and exchange of information on postal financial services with the aim to establish region-wide safe, sound and transparent principles. To do this, it should:

- Encourage cooperation between postal and banking regulatory authorities in order to develop financially-sound and compliant postal financial services, and
- Encourage the adoption by postal operators of accounting methodologies that will accurately account for each business activity.

6 CONCLUSIONS

Financial inclusion is a critical component and key enabler for Sustainable Development Goals 2030 (SDG), and for The Universal Financial Access (UFA) 2020 goal of total access.[25] These Recommendations have been developed by examining the current status of postal financial inclusion, collecting best practices, and capturing input from a stakeholder forum held as part of the underlying study. The recommendations take into account the SADC region as a whole, and the situation specific to each country. They aim to promote successful postal financial inclusion and postal diversification, and encourage the development of sound postal financial services with a customer focus. The policy aim is generally, to encourage the development of Postal Financial services, which leverage the postal infrastructure in a sound and transparent manner. Each Member State should examine their specific situation to develop the most appropriate model and plan for postal financial inclusion.

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