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Postal Savings and the Provision of Financial Services:

Policy Issues and Asian Experiences in the Use of the Postal Infrastructure for Savings Mobilization

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Abstract

In many countries postal savings and giro remittances have long enabled provision of financial services to all segments of the population, particularly women, rural communities and the urban poor and to have helped mobilize savings for investment in development. This paper reviews the postal financial systems of twelve developing Asian countries, including savings product development, investing mobilized funds, receiving overseas remittances and utilizing financial technologies. Also examined are experiences of developed countries where market liberalization and privatization have challenged savings operations. Policies are proposed for more effective utilization of the postal infrastructure in delivering financial services in developing and transition economies.

Key words:

Postal savings, remittances, financial services, saving, postal system, development investment, postbanks, giro, privatization, microsavings, women, households, poor, rural areas, Asia

JEL classification code:

O16; E21; G21; H31; L33; N24; N25.

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I. Introduction

One of the most pressing concerns for the economies of the developing world is the need for mobilizing domestic financial resources. Despite the variety of vehicles that are intended to mobilize and allocate financial resources in developing countries, all too few offer strategies for meeting the needs of poor and lower-income people for financial services. This paper reviews the experiences of various countries that have made use of one of the few institutions that does aim to provide financial services to these population groups, the postal system, through postal savings, postal remittances, postal checking and "giro" services, which are collectively referred to as postal financial services.[1] Postal savings funds also play a significant role in financing public debt and in a number of countries the funds are intermediated through a variety of policy-based financial institutions with developmental objectives, returning the funds to the direct benefit of the community of savers, which we will be noting throughout this paper.[2]

The paper examines major policy and management issues confronting postal financial services today in developed and developing countries. It is based on the author's work in this field over several years in a variety of countries on several continents, including 13 Asian countries.[3] Selected postal and savings officials and experts from the latter countries also participated in a project on postal savings that DESA supported in cooperation with Keio University, Tokyo, with the assistance of the Government of Japan. This paper draws as well from materials prepared for that project.[4]

The outstanding advantage in providing financial services through a postal system is the post's ubiquitous character. Financial services can be made available to all by virtue of the broad network of postal facilities. They are usually provided as a public service, including in those cases where the posts act as an agent, providing the services on behalf of another institution or bank, or when the postal system itself is privately owned—a relatively new phenomenon. The essential characteristic distinguishing postal financial services from the private banking sector is the obligation and capacity of the postal system to serve the entire spectrum of the national population, unlike conventional private banks which allocate their institutional resources to service the sectors of the population they deem most profitable. Indeed, for many developing countries, especially those with fragmented and dispersed populations, the posts may represent the only significant contact a large number of people have with their government and the most visible institution symbolizing national unity and identity on a positive, grass-roots level.

Postal financial services, and postal savings in particular, begin with a social mandate which embraces the strength of the postal network's "brick and mortar" facilities. When postal financial services are themselves run under agency agreements for separate savings banks or private financial institutions, it is the synergy between the postal and financial operations that makes them uniquely efficient. The shared cost and common facilities operated in a combination of high and low volume branches keeps down the costs of providing both postal and financial services. Indeed, run as a public enterprise or a regulated private monopoly, postal systems and their associated

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1 Other postal financial services may include tax and fee collection on behalf of government agencies, bill payments for utilities, foreign remittance services and foreign exchange. In some countries, credit, insurance and investment products are also available, typically provided by private firms in agency relationships with the postal system.

2 In addition to financing public debt through Government bonds and approved securities, in some countries recipients are State governments, municipalities for civil projects and National Development Funds. In a number of countries the funds are used to provide mortgages for low-income housing and small-enterprise loans, while in other countries the funds are intermediated by development banks and similar institutions for financing projects in agricultural, industrial and infrastructure development. The author is currently preparing a more detailed study of the differing modalities being used in the application of mobilized funds for developmental purposes.

3 Visits were made by the author in 2000 to observe postal financial services operations, training centres and national savings institutions, and to meet with postal, national savings bank, central bank and finance ministry officials in the following Asian countries: China, India, Indonesia, Japan, Kazakhstan, Republic of Korea, Malaysia, Philippines, Singapore, Sri Lanka, Thailand, Uzbekistan and Viet Nam. In addition, visits were made in 1999-2001 to Belgium, France, Germany, Morocco, the Netherlands and Switzerland to observe postal financial services operations, meet with officials and participate in international meetings on postal financial services.

4 Case studies were prepared by national experts and originally presented at a workshop at Keio University, Tokyo, in January 2001. They are being revised and are to be published along with a revised version of this paper in 2002 in a forthcoming book on postal savings development in Asia by M.J. Scher and N. Yoshino.

financial services should be able to operate without subsidy. As will be seen below, however, difficulties can arise when the package of services is unbundled and the former obligations of once-public newly privatized components to sustain the entire network are removed.

This paper is organized as follows: Section I introduces postal financial services and the factors that contribute to its success. Section II addresses the impact of market liberalization upon the changing economics of the posts.[5] Section III reviews the current state of postal savings in developed and developing countries and the different types of governance regimes of the posts. Section IV reviews changes in recent decades, particularly in Europe, in policy approaches to postbanks and privatization and discusses the effect these changes have on the loss of postal financial services and the problem of financial exclusion. Section V reviews the experiences of a number of Asian countries with respect to management and organizational issues, including savings product development, investment policy on funds, building overseas remittances, and the introduction of appropriate financial technology. Section VI sets forth policy proposals on postal financial services in developing countries, focusing on the delivery of services to underserved populations, including to women, rural populations and the urban poor, strengthening savings mobilization and overseas remittances, and the investment of funds for development.

A. Evolution of the system

1. Creation of a global postal network

The posts first came into existence to serve commerce and privilege. Organized to meet the needs of royal courts in Asia and Europe, formal postal operations were intended for royalty and their use was reserved for the needs of the state. The Mongol Empire's postal service stretched from Korea to the Ukraine by the 13th century. In the 15th century, European royal franchises were given to private postal carriers and local courier services to serve merchants, bankers and others privileged enough to afford their high fees. With the rise of the modern nation-state in the late 18th and 19th centuries, vested private carrier operations were consolidated into national postal systems whose services were inexpensive, profitable and therefore self-sustainable. The benefits of affordable communication to both commerce and civil culture were readily apparent, and universal postal service for the delivery of letters and parcels at uniform rates soon became the norm. To this day, the posts remain unrivaled in their world-wide scope of operations, with over 600,000 post offices and universal service to virtually all communities [Data of Universal Postal Union, *Postal Statistics, 1980-1999*, Berne, 2000].

2. Creation of postal savings and giro remittance services

The combination of financial services with the posts predates the modern era. Merchant bankers from medieval times in Europe and Asia carried correspondence for fees, along with letters of credit, payment guarantees and other financial instruments for their clients. After the institution of municipal mail delivery systems, local merchants came to expect that their local post offices would be utilized for commercial payment settlements, thus leading to the establishment of municipal postal giro systems in which payments were remitted through the postal system in many cities. [6]

In the 19th century, postal financial services were instituted nationally from two distinct but complementary services, postal savings, based initially on the British model, and the postal giro system.[7] The postal giro system

5 The posts typically comes under the jurisdiction of ministries of communications, and, while its core business activity is the collection and delivery of letters and parcels, it frequently provides a broad range of additional public services including the postal financial services described in footnote 1 and, until recently, in most countries telephone and telegraphic communications, which we will discuss in Part II, Section A.

6 Alternatively to giro systems described below, some postal systems offer postal checking services, similar to those found at banks in the United States and the United Kingdom and elsewhere, which employ paper cheques debited against an account, These two payments systems were culturally informed by two distinct traditions, the ancient Egyptian system based on credits (giro) and the ancient Babylonian debit system that employed cuneiform clay tablets as debit instruments (cheques).

7 Taken from the Greek word γυρος (guros) meaning revolving, a reference to its ability to maintain the circulation of funds through the postal payment system. In developing countries, the giro payments system is found extensively among the former French colonies, especially in Africa and the former Dutch colonies. It was not adopted by the United Kingdom, however, until 1968 and therefore, generally not found among former British colonies that had already achieved independence.

is a retail payment system widely used today in Europe, Japan, and some developing countries based on written transfer orders submitted through the posts, as well as standing payment orders. In recent years many developed and some developing countries have added electronic payment cards used at the point of sale that directly credit the account of the recipient and debit that of the payee.

The giro payments idea was first introduced on a national scale in 1883 in Austria and was instituted throughout the Hapsburg Empire, which then encompassed present-day Hungary and the various Balkan and Central European countries under its rule. The giro system enabled migrant workers to remit their wages safely and easily to their families in their home villages. It also aided the Austro-Hungarian State by reducing the amount of coinage it had to mint and by providing the treasury with the use of these funds while they resided in postal giro accounts.

Today, these benefits of the giro system still apply and the posts continue to be an integral part of many countries' payments systems. Especially in countries in which there are weak and unreliable banking institutions, or where bank service fees are high, postal financial services offer a secure alternative and are the preferred payment system. For example, Swiss Posts report that giro payments comprise over 50 per cent of Switzerland's financial transactions.[8] Postal giro systems also provide postal patrons with an easy and affordable means of remitting payments of bills, such as for utilities services, licensing fees, and taxes, and for the receipt of pension, social insurance, and welfare benefits.

3. Postal savings for the people

The introduction of savings accounts at post offices followed the rise of the savings bank movement in Scotland and thrift movements elsewhere in the beginning of the 19th century. In 1861, the United Kingdom organized the first national system of postal savings through post office savings accounts, which were seen as a safer alternative to some of the earlier thrift movement failures. The institution of national postal savings systems followed in many other European countries, British North America and Pacific, and Japan. Soon thereafter, the United Kingdom, France, Austro-Hungary, and later Japan, went on to introduce postal savings into their colonies. Most present-day postal savings systems in developing countries were introduced or first patterned after colonial systems. However, in many countries, these institutions were not well supported in the post-independence period and in a number of cases fell into disuse.

In the 1990s, postal savings was restored in many of today's transition economies. In particular, the countries in Central Europe and the Balkans that had once belonged to the Hapsburg Empire, reintroduced the Austrian *Postsparkasse* model during this period. There has also been a revival of interest in a number of developing countries. In addition, the Universal Postal Union gave attention and support to postal financial services at its 1999 Congress in Beijing.

The existence of postal financial services in some countries and not in others reflects historical circumstance. In some countries, savings bank institutions came about independently from postal savings yet significantly paralleled the development of postal savings. Notably, the German *Sparkassen* in the 19th century influenced the development of the Russian *sberbank* system, which in 1841 became the first national state-owned savings bank system, later centralized under the State Bank of the Soviet Union, and now prevalent throughout the countries of the Commonwealth of Independent States (CIS). Although institutionally separate from the posts, since 1889 the *Sberbank* has utilized the postal infrastructure, sharing counter space within post office buildings, mainly in those areas where it is too costly for them to maintain their own branches.

B. The public's confidence in postal savings

Not only do postal savings systems thrive in many countries, history demonstrates time and again that the use

8 Postal financial services are by far the Swiss Post's most profitable activity, since it suffers heavy losses from its parcel delivery and only marginal profits from letter delivery operations. Swiss Post's efforts to establish not only postal savings operations but also a full range of banking services have met strong opposition from the banking industry. [Swiss Post *Annual Report*, 2000]

of postal savings systems dramatically increases when the public's distrust of banks rises or when there is an unusual amount of political anxiety or economic insecurity. During the Great Depression of the 1930s postal savings account deposits in the United States rose to $1.2 billion, a nearly eight-fold increase over the $153 million on deposit in 1929 [*In Business*, July 1999]. Japan's banking crisis, which began in the early 1990s, has precipitated enormous growth in postal savings deposits. Political and economic uncertainty in Niger and Togo in the 1980s may have been the reason for a dramatic increase in postal savings deposits. In Niger from 1985 to 1990, there was a 329 per cent increase in deposits; similarly in Togo, from 1984 to 1986, a 45 per cent increase was experienced [*Postal Statistics*, 1980-1997, UPU]. Postal savings deposits in the Republic of Korea have jumped since Korea's financial crisis began at the end of 1997. Postal savings officials in China and India reported that fears of contagion also influenced their depositors, even though they were not directly affected by the crisis, and deposits jumped as well in the Philippines during recent political unrest at Philpostbank, which is a free-standing bank owned by the postal administration. [country report authors].

Depositor confidence in postal savings is directly related to an implicit, if not explicit, guarantee by the government of the safety of deposits, which is the primary concern of all savers. In Malaysia, the National Savings Bank (NSB), which utilizes the postal infrastructure, prominently displays a sign printed in four languages (Malay, English, Chinese, Tamil) that states: "Your savings are guaranteed by the Government." Even in the Netherlands, which has fully privatized its postal savings system, survey data show that the mistaken belief persists that postal savings are still secured by the Government.

In fact, so strong is the postbank's brandname that some banks that had been created out of postal savings systems and that ceased to use postal facilities as service points continue to call themselves "postbanks." In Hungary and other countries that had postbanks in the pre-socialist era, "Postbank" entities continued into the socialist period as commercial banks without a postal savings function. In 1999, Singapore's DBS Bank, a commercial bank which had acquired POSBank and immediately began to shed the POSBank branches, found that the original POSBank brandname exceeded DBS's own name in familiarity and consumer confidence in public relations surveys. In 2001, it reversed its decision to drop the POSBank name [author's interviews].

The security of the postal savings system is generally not hard for the government to guarantee as the investment of postal savings funds is usually restricted to government-guaranteed or approved bonds and equities. The safety backing their savings encourages depositors to leave their funds in the system. Hence, postal savings institutions typically have a broad base of depositors, many with small accounts, who tend to maintain their accounts on a long-term basis. The higher cost of servicing a higher percentage of small deposits tends to be offset by the smaller number of withdrawals per account, compared to current accounts at commercial banks.

Depositors have confidence in the postal saving systems, even when they operate under the most rudimentary conditions using simple procedures without special equipment and even though in some places they require customers to wait a long time in lines for service. Critics of postal savings systems point to bureaucratic inefficiencies and/or corruption in national postal services that may be challenged to deliver a letter in a timely fashion. Not surprisingly, however, such countries typically do not have a postal savings system. As a general hypothesis, in those countries where private sector institutions are strong, there exists a strong and dedicated public sector as well; in those countries where the public sector is weak, the private sector institutions are typically also weak and inefficient.

It must also be kept in mind, moreover, that usually very few, if any, alternatives to postal savings are available for the poorest depositors in developing countries. In most cases, people must resort to burying, or hiding their money in unsafe places. In some African countries, such as Benin and Mali, in rural areas and among the poor, people are accustomed to paying fees to obtain even a low level of security against loss. That is, savings may be deposited with so-called "money-keepers," unlicensed, informal deposit takers who charge a fee for holding a client's savings. That people pay the fee indicates the value placed on the safekeeping function ["Role and Impact of Savings in West Africa: A Case Study of Benin and Mali" B. Kalala, UNDP, 2001].

C. Giro: safe and cost-effective remittances

Postal checking and giro accounts, where they exist, are strikingly popular for compelling reasons. They are cheaper for households and small businesses to maintain than commercial bank accounts and provide a secure, affordable means to transfer money. The "informal economy" in many developing and transition countries often relies on giro accounts to make the transfers. Evidencing the utility and economy of the giro accounts system, the use of giro accounts extends beyond national borders. West African and North African countries, along with many European countries, Japan, and the Republic of Korea, have established international giro payment systems by bilateral and multilateral agreements. Cross-border payments from European countries into accounts in North Africa, for example, enable overseas workers to make inexpensive and safe remittances to their home countries. By contrast, in countries that lack international postal remittance transfer systems, overseas workers must use commercial banks or other providers of international transfer services, which tend to charge high fees, or else resort to illegal courier or payment services.

II. The changing economics of the posts: market liberalization, privatization, cross-border entry and acquisition

In recent decades, public sector, universal postal networks have been facing the severest threat to their existence ever as a result of the entry of the private sector in the provision of services formerly provided exclusively by the posts and from the concomitant separation of different components of public services from the posts according to their susceptibility to private competition.[9] Private or privatized public operators have come to dominate markets, sometimes through questionable strategies, including predatory pricing, the illegal subsidization of cross-border acquisitions with protected monopoly profits, or other anti-competitive activities,[10] often resulting in a net reduction of postal services and the capacity of the posts network. Most affected are rural and low-income areas where post office closures have resulted in the loss of postal savings and other financial services to communities previously served, as well as the loss of postal services. The results of a number of such cases are detailed in Section IV.

A. Market liberalization: new technologies and privatization

The liberalization wave of the last decades of the 20th century presented serious challenges to postal systems by placing disabling restrictions upon the posts in their capacity to respond to new technology. Postal systems had continually faced changes in technology over the past 175 years by putting these developments into service for the posts. Historically, advances in communications arose out of the creation of highways for stagecoaches, the building of railroads, the advent of the airplane. In each instance, the post was able to rapidly incorporate the benefits of an expanding communications infrastructure to reduce costs and enhance mail delivery. In many countries, the posts provided subsidies, often having to take over the early private operators that went into bankruptcy, sometimes even the initial capital to build the telegraph and telephone infrastructure. In many countries, the Ministry of Posts became the triad of Posts, Telegraphs and Telephones (PTT), with the telecommunications business the chief source of profits.

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9 The legislative process, in this regard, is not always unidirectional. For example, originally scheduled to terminate at the end of 2002, the German Parliament in July 2001 extended Deutsche Post's monopoly of domestic letter delivery for an additional five years, until the end of 2007 [*Financial Times*, 18 July 2001].

10 In particular, the European Commission ruled that the newly privatized Deutsche Post was guilty of abusing its officially sanctioned monopoly in letter mail delivery in Germany to subsidize its business parcel services to undercut competing delivery providers [*Financial Times,* 21 March 2001]. Further findings of the EU's Competition Commission criticized Deutsche Post, whose domestic letter rate is among the highest in Europe, for using its protected mail monopoly profits to finance its cross-border acquisitions, and furthermore, for deliberately slowing the incoming mail delivery of overseas rival firms [*The Economist*, 18 November 2000].

At issue for the posts today is the re-ordering of the regulatory and competitive framework in which the technology operates. Under re-prioritized regimes, domestic and foreign private competitors are allowed entry in the market, while the posts are restricted or eliminated from competing in markets in which they have been long-time stakeholders. Although in many cases the government through the posts had heavily invested public funds in industries such as national posts and telephones, in the liberalization process the posts lost important assets and gained nothing in return. The effect of liberalization and privatization trends in market structure has been to undermine the foundation of universal service. Once viable postal institutions are being threatened with extinction, while new, highly competitive private operators have been able to capture some of the most profitable operations of the postal network that employ new technologies, most notably the telecommunications sector and parcel delivery.

The policies on market liberalization and privatization adopted by many of the developed countries, especially in the European Union, have also been made part of development assistance policy programmes of the multilateral banks. In particular, the World Bank's prescriptions for the privatization of public services include telecommunications, water supply utilities and sanitation, and electricity. [World Bank *Annual Report*, 2000]. Similar programmes also exist for the privatization of postal services and postal savings systems.[11]

Today, in most countries the telecommunications branch of the posts has been detached and subsequently privatized. The loss of this important source of income for the postal administrations in Kazakhstan, Republic of Korea, Thailand, Viet Nam and other Asian countries in this study has been the main impetus in their seeking to create a new profit centre in postal financial services to replace departed telecom revenues [author's interviews].

B. The charge of "cross-subsidization" as a threat to public savings institutions

The charge of cross-subsidization has become the main complaint of private financial institutions which seek to capture the markets served by public institutions. This is perhaps most clearly illustrated in a number of legal actions brought against German public-sector financial institutions at the European Commission (EC). Germany has a well-developed network of 564 Sparkassen (municipal savings banks)[12] for small-scale savers that feed funds into the twelve State-owned Landesbanks (regional-based development and wholesale credit banks). Challenges to the continued existence of the Landesbanks have come before the European Commission premised on the Landesbanks having lower cost funding than the private sector banks. The complaint, first lodged by the European Banking Federation (a private-sector lobbying group), attacks both the Landesbank's public's ownership status (*Anstaltslast)* and the State's maintenance requirement (*Gewährträgerhaftung*) to supply additional capital against any unmet obligations of the Landesbanks. The complaint thus claims that the Landesbanks, and the Sparkassen as well, are able to function at lower costs than Germany's private-sector commercial banks.[13] The complaint was

11 The World Bank's Private Sector Development Department addresses postal sector reform in *Redirecting the Mail*, K. Ranganathan, 1996. Later in this section and in Section IV we will take a closer look at several case studies of countries which have experienced the consequences to the posts of market liberalization and privatization, the issues upon which the World Bank's initiatives have focused. The antipathy of the World Bank and other international lending institutions' to postal savings begins with their core belief that private-sector financial institutions are sufficiently equipped and motivated to meet the saving needs of the public and hence that publicly-owned financial institutions, such as postal savings compete with the private sector. The reality and logic of these suppositions are also discussed in Sections IV and V within the context of the case studies on privatization, commercial bank strategies and financial exclusion.

12 The Sparkassen system originated in the early 19th century and thus predates the founding of the German State. With 55 per cent market share and a highly loyal depositor base, the Sparkassen 'S' logo is recognized by 98 per cent of the German population, second only to the crucifix, according to market researchers. Postal savings, in contrast, was not introduced until Germany's take-over of Austria during the Nazi period when Austria's Postsparkasse was incorporated into the German postal system. Deutsche Postbank, which is now a commercial bank, is thus a relative latecomer, owing to the strong position of the Sparkassen [author's interviews; *Euromoney*, March 2001]

13 In fact, these re-capitalization guarantees are formally no different than those requiring shareholders of private banks to meet their bank's minimum capital requirements. The difference is that a private shareholder maybe unable or unwilling to do so, wherein the bank goes bankrupt. Except, however, the "too big to fail" policy provides an implicit guarantee for large private banks from Government's role as the "lender of last resort".

widely seen as part of the agenda of Germany's commercial banks to force the privatization and then take over the Landesbanks. Even though the Sparkassen are not involved in cross-border activities—67 per cent of their balance sheet are retail deposits (which is the actual source of their funding advantage), and their lending is primarily to local small- and medium-sized enterprises—the EC agreed to consider the case that the re-capitalization guarantees by the State governments to the Landesbanks and the Sparkassen were a "cross-subsidization," that might disadvantage foreign entrants into Germany's retail banking market [*Euromoney*, March 2001; Financial Times, 17 July, 2001].

The cross-subsidization issue has been a recurring theme in other countries in which private financial institutions have sought to take over the market of publicly-owned savings institutions. In particular, Japan's commercial banking sector has for the past decade repeatedly called for the break-up and privatization of the postal savings system, also charging "cross-subsidization." Meanwhile, it may be noted, some ¥8.4 trillion ($80 billion) in public funds has been injected in the re-capitalization of 16 major commercial banks and 11 regional banks, mostly in March 1999, and the Bank of Japan has lost the credits it extended in its fruitless attempts to stave off the bankruptcies of Long-Term Credit Bank, Nippon Credit Bank, Hokaido Takushoku Bank and a host of regional banks. We will discuss this question in more detail in the cases in Part IV, Section D on "Transition economies and privatization: bailouts at public expense," and further on the case of Japan in Part V, Section B.3, "Are postal savings in competition with commercial banks?"

The implication of the "cross-subsidization" charge for the future of postal financial services is that if it succeeds in Germany and Japan it may provide a means in other countries as well for cross-border and domestic private capture of the markets of postal savings operations. However, both the German Landesbanks and Sparkassen and the Japanese postal savings system enjoy a large amount of regional and local political support. In the face of difficult economic times, the German Government is also looking to these State-owned institutions to help fund small- and medium-sized companies. Any talk of final settlement of the issue is far from being at hand, and is usually spoken of in terms of 2005 when the postponed Basle II Accord on minimum capital adequacy standards for commercial banks are to come into effect [*Financial Times*, 1 November 2001]. In addition, the Japanese postal savings agency purchases a large part of Government bond issues, an important consideration for Japanese policy makers. Both Germany and Japan are bank-centered financing regimes, so their Governments' policy responses to the "cross-subsidization" issue are of some interest to many developing countries where bank intermediation is also the chief source of corporate finance, particularly for small and medium-sized firms. In Part V, Section C, we discuss the intermediation and investment of mobilized savings within the context of Asian developing countries.

C. Cross-border entry: the express package delivery wars

The policy of the European Union to create a single internal market has allowed cross-border entry in services that were once a national postal monopoly. [14] This has led to the unfettered entry into various national markets of express package delivery companies, including some owned by the major privatized postal operators. Germany's recently privatized national postal operator Deutsche Post spent $8.6 billion acquiring DHL and 30 other express delivery and logistics firms and financial institutions. The French and Italian state-owned postal operators jointly formed Geopost, a parcel delivery company that is now competing with the document and parcel delivery firms owned by the privatized postal operators of Germany and the Netherlands, namely DHL and TNT, as well as with such independent operators as United Parcel Service (UPS) and Federal Express. Each has been aggressively challenging the others as well as the Express Mail Service

14 A number of EU regional association agreements such as the European Union Mediterranean Partnership Agreement [The European Commission MEDA II Programme, November 2000], as well as EU technical assistance programmes such as Phare (Eastern Europe) and Tacis (CIS and Mongolia) are also aimed at market-opening policies in pre-accession and other non-member countries.

(EMS) courier service of postal operators in targeted countries.[15]

The strategy of these new entrants is to "cherry-pick" the market, i.e., target the most profitable market segments. In some cases, Governments do not accept this. For example, Deutsche Post recently withdrew from bidding for a stake in Hellenic Post after the Greek Government attached a condition that the German group would be required to deliver packages anywhere in Greece [*Financial Times,* 26 June 2001]. In other countries, newcomers have been allowed to skim profits from urban markets and to leave unprofitable areas to the nation's postal service. In those countries, the post must compete with well-capitalized private operators in the urban, higher-volume commercial areas while also fulfilling its mandate in providing delivery services to widely dispersed, low-volume and therefore unprofitable regions. One consequence has been a drastic reduction in the scope of the post's network in a number of countries owing to cost reduction measures.

The loss of the posts' telecommunications and express mail delivery services in commercial urban areas that was seen in Europe has been repeated in developing countries as well, where the challenge posed has been greater. That is, for developing countries, non-letter revenues are crucial to maintaining the profitability of their postal network. In most developing countries, mail volume is quite low, especially outside large urban, commercial areas. For example, while the average annual mail volume in the European Union is 275 letters per capita and in the United States 705, among the developing countries it typically ranges between five to ten letters per capita per year, and less in the least developed countries [Universal Postal Union, *Postal Statistics,* Bern, 1998]. It is estimated that 91 per cent of the cost of postal operations is expended in the logistics of sorting, moving and delivering letters and parcels [J. Lohmeyer, World Bank 2001]. The economic difficulties of postal administrations are often further compounded by politically mandated low postal rates. It is therefore no surprise that letter delivery, the core business of the posts, generates losses and often requires cross-subsidies from the post's other activities in order to maintain its network. One solution for them is to create and/or expand the role of postal financial services to seek new centres of profit.

III. Financial services through the postal infrastructure

A. Current situation

In order to develop a picture of the extent and character of postal savings operations around the world, the United Nations Department of Economic and Social Affairs undertook a survey in 1999 of postal savings authorities. Forty-nine of the countries on which data was collected had postal savings facilities, as listed in table 1. Based on other information, it is believed that an additional 27 countries and territories currently have postal savings systems (see notes to table). In addition, 32 of the 64 countries that responded to the survey had postal checking or giro payments operations.

The list of countries in table 1 indicates widespread usage of the postal savings system in a variety of countries, both developed and developing. A number of Asian countries are particularly highly ranked in the number of accounts per capita, which reflects the high rate of individual savings found in many Asian countries, but also the effective systems in those countries, which we discuss later in Section V. Two Asian transition economies, Kazakhstan and Viet Nam had just begun their postal saving operations at the time of the survey in August 1999. Most striking, however, is the absence of the postal savings systems of certain developed countries that only a decade ago headed the list, such as New Zealand. In addition, since the data were compiled, Finland and Sweden stopped offering postal

15 While severely destabilizing the financial underpinnings of domestic postal operators in the markets they have entered, these new "international logistics operations" have so far proven to be rather unprofitable investments, not even meeting the cost of capital. For example, despite accounting for 42 per cent of revenues, express and logistics services contributed only seven per cent to Deutsche Post's profits, a distant third compared to their domestic mail monopoly which contributed 34.5 per cent of revenues and 74.3 per cent of profits; and the postal financial services franchise which contributes 23.5 per cent of revenues and 18.7 per cent of profits [Deutsche Post Annual Report 2000; *Financial Times,* 20 November 2000].

Table 1: Postal savings data from DESA Survey

Country	*Year*	*Number of saving accounts*	*Number of accounts per person*
Japan	1998	113,690,000	0.899
Korea, Republic of	1999	18,164,000	0.822
Sri Lanka *	2000	9,007,530	0.476
Greece	1998	4,500,000	0.426
Slovenia	2000	160,000	0.358
France	1997	20,000,000	0.341
Austria	1998	2,300,000	0.284
Italy	1998	15,000,000	0.261
Sweden	1999	2,226,000	0.252
Germany	1998	19,670,000	0.240
Tunisia	1998	1,871,500	0.202
Mauritius	1999	210,296	0.183
Gabon	1998	159,884	0.137
India	1999	116,000,000	0.117
Egypt	1999	7,500,000	0.112
Trinidad and Tobago	1999	143,000	0.111
Finland	1998	2,392,913	0.097
China	1999	104,000,000	0.082
Czech Republic	1999	830,000	0.081
Bahamas	1993	17,178	0.063
Aruba	1999	6,028	0.062
Benin	1999	330,000	0.054
Côte d'Ivoire	1998	708,000	0.046
South Africa	1999	1,700,000	0.040
Syrian Arab Republic	1999	565,550	0.036
Morocco	1998	1,029,905	0.036
Belgium	1998	310,639	0.030
United Republic of Tanzania	2000	1,003,224	0.029
Burkina Faso	2000	323,924	0.028
Croatia	1999	126,502	0.027
Central Africa Republic	1997	68,099	0.019
Comoros	1998	12,629	0.019
Niger	1992	115,000	0.014
Macao, China	1998	500	0.011
Jordan	2000	54,000	0.011
Mauritania	1999	22,300	0.009
Pakistan	1999	1,000,000	0.007
Viet Nam	1999	204,816	0.003
Yemen Republic	1998	53,721	0.003
Mongolia	2000	6,000	0.002
Sierra Leone	1999	6,700	0.002
Iran, Islamic Republic of	1999	71,380	0.001
Congo, Democratic Republic	1997	17,402	0.000
Kyrgyzstan	2000	1,280	0.000
Kazakhstan	1999	482	0.000
Bangladesh	NA	NA	NA
Malawi	NA	NA	NA
Hungary	NA	NA	NA
Slovakia	NA	NA	NA

Source: DESA survey and country reports on postal savings.

Notes: Questionnaires were sent to the Ministries and postal administrations of approximately 80 countries in July 1999 and were further distributed with the assistance of the Universal Postal Union at the UPU Congress in Beijing, August 1999. As of April 2001, information has been collected directly from 64 countries, either as survey responses or as parts of reports contributed as case studies, as noted in footnote 4. A significant problem affecting data collection is that many privatized postbanks and national savings banks that utilize the postal infrastructure do not report statistical information to the postal authorities, which supply information to the UPU for its statistical publications. In addition, in some countries, the postal savings bank also had stand-alone facilities, whose accounts were not disaggregated from the accounts mainly transacted at the postal branch offices. Moreover, in some countries many of the reported accounts were dormant. Thus, data on postal savings as reported in this table and as published by the UPU should be used with caution. *Denotes national savings bank which also utilizes the postal infrastructure.

Postal savings operations are believed to currently exist in the following countries and territories which did not supply DESA with information: Algeria, Brazil, Cameroon, Cape Verde, Iraq, Ireland, Israel, Kenya, Democratic People's Republic of Korea, Libyan Arab Jamahiriya, Madagascar, *Malaysia, Mali, Namibia, Nepal, Netherlands, Norway, Portugal, Samoa, Senegal, Sudan, Taiwan Province of China, the Former Yugoslav Republic of Macedonia, *Togo, United Kingdom, Yugoslavia, Zimbabwe. *Denotes national savings bank which also utilizes the postal infrastructure and has additional stand-alone facilities.

The following countries postal savings systems are privatized: Aruba, Austria, Belgium, Cape Verde, Côte d'Ivoire, Czech Republic, Germany, Hungary, Kyrgyzstan, Netherlands, Norway, Slovakia, Trinidad and Tobago.

The following countries provide postal counter facilities under agency agreements with private sector banks: Australia, Denmark, Indonesia.

The following countries had postal savings which were subsequently suspended or abolished: Bosnia, Bulgaria, Canada, Chad, Finland, Guyana, Mozambique, New Zealand, Nigeria, Romania, Singapore, Sweden, United States of America.

The following countries reported to DESA their having postal giro and/or postal checking services: Austria, Belgium, Burkina Faso, Central African Republic, Chad, China, Côte d'Ivoire, Croatia, Czech Republic, Democratic Republic of Congo, Denmark, Dominican Republic, Egypt, Finland, France, Germany, Indonesia, Italy, Japan, Republic of Korea, Latvia, Mauritania, Morocco, Mongolia, Niger, Pakistan, Slovakia, Slovenia, Spain, Sweden, Syrian Arab Republic, Tunisia. In addition the following countries, which did not respond, are also believed to have postal giro systems: Algeria, Burundi, Benin, Cameroon, Gabon, Iceland, Israel, Liechtenstein, Luxembourg, Madagascar, Malta, Netherlands, Norway, Poland, Rwanda, Senegal, South Africa, Switzerland, the Former Yugoslav Republic of Macedonia, Togo, Turkey, United Kingdom.

savings. The reasons for their departures from the list are addressed in Section IV on privatization and the loss of postal savings services.

B. Governance structures of the posts

Generally, postal systems are operated under one of three governance structures: first, a traditional model centred on a department of government; second, corporatization of the posts to overcome shortcomings of the traditional model; and third, a fully privatized postal operator. With liberalization as a general economic strategy, many countries have moved from a traditional model to a government-owned corporation, and several to privatized systems. Europe has had the most occurrences of privatization of postal operations, and the entire systems of the Netherlands and Germany have been privatized.

The traditional model of postal governance. Here the posts are run by a department of the government under a ministry of communications or similar government body. It operates within a budget determined by the government, and all revenues from its operations are returned to the treasury. Under this regime, the postal administrator's managerial imperative is to operate within the budget, although competing government budget priorities in developing countries seldom result in the posts being adequately funded. Typically, income derived from postal savings or postal financial services as well as from all other services is reported on the basis of gross revenues collected, most often without any analysis of actual transaction costs to determine net profits, or more likely in the case of most mail delivery operations, net losses. Furthermore, with government-mandated postal rates often set below actual costs, the post's problems are compounded. Clearly, this governance structure provides no incentive to progress beyond the predetermined targets set by the government.

The corporatized model of postal governance. The need to rationalize operating costs under a traditional mode of operation has motivated many governments to corporatize their postal system. Such postal systems are no longer departments within the government but are government-owned companies. Such entities are responsible for the profits and losses of their own operations and, like private corporations, must maintain overall profitability or, at least, not run at a loss. This governance regime contains incentives to raise the efficiency of postal operations. Being government-owned and thus supervised by a board of official appointees, such entities could also continue to be directed to fulfill public policy objectives. In addition, there are strong incentives for management under this model to seek to add new profit-making services to its operations and to create efficiencies in all areas of operations.

In such an environment, management is compelled to analyze its cost of providing different services and the fees needed to cover costs. Rates are still likely to be set by policy and will perhaps not cover all costs for all services. This means earnings from more profitable services would "cross-subsidize" the losses of others.

In postal operations, cross-subsidization and overall subsidies should not be heard as pejorative, anti competitive concepts, but rather may exist to serve otherwise unmet public needs. Without denying that inappropriate policies have been applied in some cases, subsidies remain legitimate instrumentalities by which government mandates to the postal administration to provide services at "socially-determined" prices and may be carried out in the interests of national policy. Subsidized postal rates for books, newspapers, and the like generally reflect a policy to promote a democratic civil culture and other subsidies are similarly intended to promote other public welfare objectives. What is essential is that postal management has a clear analysis of transactions costs and be able to articulate the nature and extent of such subsidies so that the domestic political process can better assess their cost within the context of their social benefit.

The privatized postal model. The most complete break with the traditional model of operation is the fully privatized postal operator. In this case, the government gives up direct oversight of management of the postal system and the role of the state is limited to that of a regulatory authority over a private operator. Supervision is usually by a governmental agency or commission. The postal operator is required to conform to government standards and practices so as not to conflict with the public good and to fulfill its social mandate as a regulated public utility. Placing national postal systems in the hands of privatized postal operators in the 1990s was a relatively new occurrence in modern times, although its historical antecedents date back to the feudal days of Thurn und Taxis and the Holy Roman Empire.[16] The privatization phenomenon has largely occurred within the overall framework of market liberalization of public services.

IV. Postal systems and "Postbanks": creation, separation, privatization and synergies of reintegration

A. Postbank creation and separation from the posts

It is not unusual for postal savings operations to be restricted in the range of financial services they may offer. They are often denied licenses for issuing consumer credit and small business and agricultural loans by the financial regulatory authorities, and, as a practical matter, often lack the institutional capacity to undertake the intermediation and investment of mobilized funds on a large-scale. This combination of factors has led to the creation of an entity known as the "postbank."

Postbanks have existed in Europe, originally as state-owned institutions, since the early part of the last century. While postal savings banks frequently provided services for the small-scale consumer, agricultural credits and mortgage housing facilities,[17] the primary impetus for their conversion to postbanks was to provide for a greater range of investment options beyond these small-scale loans and the purchase of Government debt securities. They were especially interested in providing large-scale commercial credits. These fully licensed postbanks are regulated by the ministry of finance or central bank or similar government agency. They operate through use of the postal infrastructure, especially for deposit collection and withdrawal, although they may also have free-standing branches. However, the more commercially-oriented operation of the postbanks in developed countries in recent decades has embodied two tendencies which should be of concern to developing economies. First is the demise of postal savings functions and the loss of this modality for mobilizing funds for developmental purposes when postbanks adopt commercial banking strategies. Second is the weakening of the postal network's infrastructure, which provides a wide range of civil and social services besides mail services, including postal financial services itself.

It will be seen in the cases that follow that once ownership of the postbank is separated from the posts, the management goals of the postbank authorities come into significant conflict with those of the post. An important issue is thus whether the posts should retain an ownership stake in the postbank irrespective of whether the postal system itself is government-owned or under private ownership. Holding an ownership interest provides the posts with the means to resolve what could otherwise be a difficult problem of loss of incentive to promote savings. Otherwise, after the postbank is separated from the post's ownership, the mutually sustaining synergy between the posts and postal savings typically disappears.

B. Loss of postal network and savings services after privatization

Although postbanks were wholly owned by the postal system when first organized, many were subsequently privatized. An increasing volume of evidence in European cases attests to the losses of synergy that ensue when the government sells the postbank to private-sector banks. As will be seen in the cases discussed immediately below, in a common scenario, the privatized postbank be-

16 The Counts of Thurn und Taxis held the hereditary postal franchise from 1460 to 1867 for the Holy Roman Empire and its successor States.

17 In the UN-DESA survey 80 per cent of the developed countries reported offering credit facilities to their clients, while only 20 per cent of the developing countries postal savings systems reported this function. The British postal savings model, unlike its continental European counterparts, did not offer credit facilities to its clients. This historical circumstance may explain why the credit function is seldom found in the postal savings systems of former British colonies. In Part V, Section B we will discuss the importance of credit services, especially in rural areas and its link to savings mobilization in developing countries.

gins by using the postal service as its agent. However, the privatized postbank also often inherits having to pay only a nominal transaction fee for its use of post office services and infrastructure, well below what it might be charged for similar transactions as an unrelated private financial institution. When the postal system owned the postbank, earnings from its ownership stake offset the low transaction fee. With privatization, the post's revenues from financial services are reduced to these nominal fees alone without the benefit of dividends from postbank shares.[18] As a result, overall postal revenues decline to such low levels that many marginalized post office locations are shut down. At the end of this scenario, the private takeover of the postbank has compelled a series of negative consequences, including the closing of many post offices that previously provided both mail and postal financial services to local communities. Isolated communities and low-income areas that are not typically included in a private bank's marketing strategy are especially hard hit.

1. *Commercial banks strategies replace savings linked to development*

The scenario described above was most clearly played out in the Scandinavian countries, which were early movers towards the separation of financial services from ownership by the postal systems. Their subsequent experiences with privatization led to the eventual elimination of postal savings and other postal services. For example, the Finnish Postal Savings Bank (PSP) was founded in 1887. The PSP first invested in State bonds and in the 1920s and 1930s increasingly channeled loans into the Cooperative Credit Societies for agricultural credits under terms negotiated by the Ministry of Finance. In 1939 the PSP's ownership was separated from the Department of Posts and Telecommunications but the PSP continued its development bank functions, funding state-owned hydroelectric power and electrification plants and providing credits to forestry and wood-processing industries and housing before turning to industrial credits in the 1950s.

As of 1987, 90 per cent of the cashier transactions of Postipankki (Postbank), the former PSP, took place in Finland's 3,200 post offices [*Postipankki—The First 100 Years*, 1987]. Postipankki, however, was also increasing its independent branch network. In 1987, in addition to the post offices, it had 50 branch offices in 33 cities and towns, 13 of them in the Helsinki area alone. Following Finland's commercial banking crisis in the early 1990s, Postipankki rapidly increased its stand-alone branches by acquiring failing private banks in the high-volume commercial areas of Finland's larger cities. With its new base of urban commercial clients, Postipankki adopted a new corporate strategy which de-emphasized the postal network clients. It negotiated a reduction of its annual franchise fee to the posts and at the same time expanded its independent branch network which by 1999 stood at 83 retail branches, 55 commercial branches, and 18 devoted to private banking clients. This in turn led to a hastening downward spiral of loss of revenues to the posts, which forced the closing of 65 per cent of Finland's post offices between 1990 and 1995, following the first large-scale fee reduction in 1990. The number of postal branches that handled savings fell from 2,700 to 927. Following a second large-scale fee reduction in 1995, the total number of postal savings points was further reduced to 477 by 1998, which also marked a dramatic loss in the availability of all postal services in rural regions and among lower-income populations. Not surprisingly, the reduction in the number of post office branches was accompanied by a drop in the number of savings accounts, i.e., from between 3.2 and 3.4 million accounts at the end of each year in the first half of the 1980s, the number of accounts fell to an average of 2.5 million in 1994-1998. At the same time, the average size of accounts rose from Fmk2,673 to over Fmk14,250 in these two periods, indicating that the composition of the clientele had become more heavily weighted towards higher income people, suggesting that Postipankki was following a strategy to shed its least profitable clients.

Following these reductions in the postal network, Postipankki was re-named Leonia Bank (April 1998),

18 Governments all too often have sought to maximize their immediate gains from the sale of a postbank at the expense of long-term benefits to postal savings operations and the posts. For example, before the auction sale of the postal savings bank to BAWAG bank in 2000, Austria Post sought to purchase a 25 per cent ownership stake. The Government rejected the request on the basis that it would dilute the ultimate purchase price of the Postsparkasse to potential private buyers [*Der Standard*, 5 May 2001].

and was fully commercialized. At the outset of privatization negotiations, Leonia Bank demanded further reductions in its annual fee payments to the posts, citing the decreasing utility of the postal infrastructure to its corporate strategy. Leonia Bank asserted that the volume of financial services at the least busy post offices (i.e., in rural areas) had declined, owing to "the increased use of ATMs, bank cards, the telephone services, on-line banking" [Leonia Bank *Annual Report,* 1998].[19] Such claims notwithstanding, Finland Posts reported that 50 per cent of post office staff activities were still being conducted on behalf of Leonia Bank [*Helsingin Sonomat*, 28 October 1999]. When fully privatized and part of the Sampo Insurance Group, Leonia Bank ultimately refused to renew its agreement with the posts. By the end of December 2000, Finland, which once had among the highest per capita usage of postal savings in the world was completely without postal savings and in many areas without post offices as well [Finland Post Ltd, Annual Reports, 1999, 2000; *Postal Statistics*, UPU; *Financial Times*, 10 July 2000].

In Sweden, another early convert to privatization of postal banking, similar reductions in postal banking services have been reported. After a ninety-year history of providing both savings and loan services, the Swedish Postal Savings Bank was separated by the Government from the post's ownership in 1974 and merged with the Swedish Kreditbanken to form the Government-owned Post and Kreditbanken (PK Banken). In the aftermath of the Swedish banking crisis in 1994, the Swedish Cabinet attempted to rescue the failing private Nordbanken by merging it with PK Banken. Since then Nordbanken has undergone repeated mergers and several changes of ownership, first merging with the Finnish private bank Merita. Merita-Nordbanken then became part of Baltic Holding Ltd, now called the Nordea Group, a pan-Scandinavian international financial consortium. From the privatization through the Nordbanken takeover in 1994 to June 1999, 85 per cent of Sweden's 14.8 million postal savings accounts were closed [UN-DESA Postal Savings Survey; *Postal Statistics*, UPU], the bank having changed its corporate strategy to market its services to a wealthier clientele, in effect abandoning the nation's postal savings franchise. The result of all these mergers was a decline in post office revenues from financial services, a leading factor in the closing of over 1,000 post offices in Sweden between 1989 and 1998. Seven hundred fifty post offices were replaced by partial postal service operations at gas station and shop counter locations. Thus all postal services were drastically reduced. Postal savings were terminated in April 2001 [author's interview; Sweden Post AB *Annual Reports*, 1996-2000; Merita-Nordbanken *Annual Report* 1998; Nordic Baltic Holdings *Annual Report* 1999].

At issue, in the cases of Finland and Sweden, is the changing character and priorities of the postbank institution. Its initial mission was as a public sector institution providing financial services to the whole population, including rural, disadvantaged and small savers, local commerce and small enterprises, and providing the intermediation of savings for development. As a private, commercial bank, its purpose changed to the maximization of private shareholder value, and its investment strategy changed to the wholesale intermediation of funds. These differences in objectives and outcomes are a matter for policy makers to consider when privatization is contemplated, which is not to say, however, that private banks have no interest in the utility of the postal infrastructure.[20] Later, in Section E, we discuss private sector interest in finding opportunities in postal financial services.

19 Claims relating to the use of home Internet and telephone banking services in place of postal counter services in Finland and other countries invite further scrutiny. Although Internet usage in Finland is 43 per cent, the highest in the world, there exists a wide gap between electronic banking usage by younger and more affluent clients and what is feasible for elderly pensioners or available to low-income populations without access to personal computers. In Deutsche Postbank's case, three-quarters of all the bank transactions are still handled at postal counters, even though it has a highly-regarded Internet-banking website and also offers telephone banking for its wide range of brokerage, funds management, currency and derivatives trading services for its commercial and retail clients. Following in this section we will discuss in more detail attempts to address issues of financial exclusion and the "unbanked" in the United Kingdom and see how Internet banking has not provided a solution. Although Internet usage is relatively high in developed countries, especially Scandinavia, in Africa, for example, only one out of every 250 persons has access, with relatively advanced South Africa accounting for 94 per cent of this usage ["Industry Statistics" CommerceNet]. In Section V, I will also discuss the use of financial technology based on telecommunication within the context of developing countries.

20 For example, in 2001, Finland's OKOBank, a major savings institution, sought (unsuccessfully) to acquire the Finnish postal system.

C. Tackling the problem of financial exclusion

The loss of access to financial services for low-income and rural populations has been a matter of great concern in the United Kingdom, where the postal savings concept first originated. Founded in 1861 as the Post Office Savings Bank, its chief purposes were to provide a convenient, government-secured means for people to save and to provide a source of funds for government borrowing, including the sale of savings certificates and government bonds. In 1969 ownership of the postal savings operations was separated from the posts, renamed "National Savings" and transferred to the Treasury, with the post office subsequently playing an agency role. The National Savings system then fell rapidly into disuse and, although 20.4 million accounts still exist, many of them have been long dormant with only nominal amounts on deposit. The sharp decline in use has largely been due to cumbersome, outmoded account posting procedures which mostly requires the account owner to send his passbook along with the deposit or withdrawal request to the National Savings Agency postal counter service. Otherwise, withdrawals are limited to £50.[21]

Among other postal financial services, in 1990 the postal giro system was sold to a private institution, Alliance & Leicester, although it too continues its services through the posts.[22] Independent of the giro system and non-giro bill payments, including taxes, etc., the main activity of postal financial services in the United Kingdom is the disbursement of pensions and benefits; some £50 billion a year is delivered in cash to post offices to be disbursed monthly to 15 million recipients.[23] Despite obvious safety and security concerns, these funds largely remain in the cash economy.

1. Who you are and where you are: the unbanked in the United Kingdom

Banks in the United Kingdom have reduced their branches over the past decade from 17,000 to just over 12,000 in 2000, with more closures expected, leaving many small towns without financial services. The British Financial Services Authority (FSA) has reviewed the social impact of these changes and has found that over 20 per cent of the adult population lack current accounts, and upwards of 37 per cent of households do not own savings accounts or investment products.[24] The FSA attributes this largely to the closing of commercial bank branches over the last decade and the banks' failure to extend government-mandated banking services to the poor through low-fee accounts. The banks' strategic goals over the past decade have been the cross-selling of financial services such as investment brokerage accounts and insurance products to wealthier clientele, ignoring the low-income, rural, and aged populations which have traditionally relied on the post for their financial services and often harbor an antipathy towards if not mistrust of banks, where they feel socially, as well as economically excluded [author's interviews; *In or Out? Financial Exclusion*, FSA, July 2000].

2. Restoring the network

In an attempt to address the issue of the "un-banked," the U.K. Government has decided to direct its pension and benefit payments into commercial bank accounts by 2003. This change will result in a loss to the Post Office of £400 million in fees that are derived from pension and benefits payments. These fees account for 40 per cent of postal operation profits, and their loss will also result in the closing of many of the post office branches that provide financial services.

21 In many developed countries passbook savings have been superseded by statement savings accounts.

22 In 1986 the Post Office had been reorganized into three separate businesses: Royal Mail Letters, Parcelforce, and Post Office Counters, all under a state-owned group now known as Consignia. In June 1994, the Conservative Government also published a green paper calling for the Post Office's privatization.

23 Some 61 per cent of the post's income is derived from providing financial services, primarily pension and benefits payments, but also bill payments, banking and national savings, while the mails account for only 23 per cent of revenues [Post Office Report and Accounts, 1998/1999].

24 In addition to belonging to low-income populations and members of some minority ethnic groups, the odds of households being excluded were also higher in Scotland, Wales and certain sections of Greater London ["Understanding and combating 'financial exclusion'," Rowntree Foundation, March 1999].

Concern over these outcomes has led the U.K. Government to attempt to reinvigorate the postal infrastructure's more than 19,000 post office branches, of which some 50 per cent are in rural areas and typically a section of the only village shop and a focal point of community activity. Recognizing the important social role the post office branches play in their communities, it has thus become a policy priority of the Government to provide both financial services to those excluded and to restore a sound fiscal base for maintaining the postal infrastructure to prevent future rural post offices closures [*Counter Revolution–Modernizing the Post Office Network*, Cabinet Office, June 2000].

Among the proposals to be implemented is the creation of a new Post Office-based "Universal Bank,"[25] which would be jointly owned by the Post Office, the High Street banks and other financial institutions. The mission of the universal bank will be to tackle the issue of financial exclusion by providing a wide range of financial services in rural and disadvantaged urban areas as a non-competitive neutral agent for private sector financial institutions. Private institutions so far have been reluctant to contribute the £180 million they are to be assessed for the plan. However, the U.K. Government maintains that, since these private sector institutions are being gifted the Government's direct deposit of pension and social benefit payments, their contribution to the universal bank plan is obligatory. Envisioned in the Government's plan, also to become operational in 2003, is the outlay of £1.1 billion for the creation of a PC-based on-line "banking-engine" which will implement computerized counter service to be installed in all U.K. post office and branch network locations as well as the use of debit-cards allowing access to the LINK network's 28,000 cash machines. It should be noted with respect to Internet banking in the United Kingdom, that those financially excluded are more likely not to have a telephone (40 per cent) and even more so, a computer (over 90 per cent).[26] Critics point out that, not only do many post office clients have a distinct preference for managing their financial affairs on a cash basis, any arrangement that gifts the Government's direct deposit of pension and benefit payments provides a significant cross-subsidy by Government to the big four High Street banks that have failed to provide adequate access to the financially excluded through their own diminished branch networks despite their dominance of retail banking services. The implementation and outcome of the plan should invite further study as it progresses [author's interviews; *Competition in UK Banking: Report to the Chancellor of Exchequer*, D. Cruikshank, March 2000; "Access to Financial Services," O. Pilley, 2000].

D. Transition economies and privatization: bailouts at public expense

Another issue of importance in the privatization of postbanks, particularly in transition economies, is how poorly the privatization process and subsequent government oversight have been carried out. Almost as soon as postal savings services were reintroduced in the transition economies of Central Europe and the Balkans, the postal systems joined other state-owned institutions in being targeted for privatization, often at bargain prices. However, in some cases, governments offered up hasty sales of state-owned property to foreign corporate investors that were not fully aware of the weak financial condition of their acquisition, ultimately forcing these governments into large-scale bailouts at public expense.

For example, the Czech Government merged its Postbank with their financially troubled Investment Bank in 1994 and then privatized the merged institution for CzK200 million ($6.1 million). In the process, the newly formed Ivestiční a Postovní Banka (IPB) gained access to the Czech Republic's 3,400 post offices and the CzK75 billion ($2.3 billion) deposits of the post's two million savings account holders. From the perspective of the posts, the deal represented a serious loss in which the posts retained 6 per cent ownership of the new bank. In 1998, Japan's Nomura Investment Bank purchased the Czech

25 This "Universal Bank" should not be confused with the multi-sector financial institutions also know as universal banks that are found in Germany, Switzerland and increasingly in other countries as a result of financial deregulation.

26 Monthly Internet usage in the United Kingdom is 27 per cent of the population but highly skewed to younger adults. Only 11 per cent of these users are over 50 years old. ["Industry Statistics" CommerceNet, September 1999]

government's 46 per cent stake in IPB. However, IPB had failed to disclose $7.5 billion in outstanding loans to client firms in which it owned shares. This led Nomura Bank to walk away from its investment in 2000, charging cronyism between IPB's managers and their clients. The reported size of the Czech Government's latest bailout of IPB, as part of a merger deal with Československa Obchodní Banka (owned by KBC Bank of Belgium) is CzK95 billion ($2.5 billion) in government guarantees against all prior loan losses and will cost the Czech taxpayers approximately five per cent of GDP. This bank rescue is the costliest so far among the European transition economies [*Financial Times*, 10 August 2001].

In Hungary, the privatized postbank went into bankruptcy in 1998 as a result of non-performing commercial loans, necessitating a $750 million takeover by the Government, ruining the brandname of the postbank, and disrupting newly resumed postal savings services in the process [*Financial Times,* 7 March 2001]. Still another case, illustrating that the issues raised here are not exclusively European nor the sole provenance of developed and transition economies, is Indonesia's Posbank, which was merged during the market deregulation of the 1990s with a commercial bank owned by the family of former Indonesian President Suharto. The Suharto commercial bank had concealed a massive bad-loan portfolio that quickly forced the Posbank into bankruptcy with the resultant loss of postal savings operations.

E. The private sector finds opportunities in postal financial services

As noted above, the process of liberalization and privatization of postal savings functions has been going on for more than a decade. Other financial institutions with alternative retail strategies have sought to enter into agency agreements or even purchase entire postal systems. There have been two major categories of buyers. First, commercial banks and insurance companies have vied for the franchise opportunities represented by the large and stable deposit base of postal savings and for the opportunities to sell other financial products such as insurance, pension plans and investment funds to postal savings customers. In this context, mega-financial conglomerates have expanded beyond their national boundaries to acquire postal financial services in other countries. Large financial firms, such as Citibank, Belgium's Generale Bank (now part of the Fortis insurance and financial group[27]), and the Dutch firm ING Barings (insurance and financial), which partly owns Netherlands Posts with TNT Post Grope, have sought to expand through foreign direct investment in postal financial operations and payments systems in other countries.

The second major category of buyers of postal financial services are privatized postal systems themselves. The privatized national postal operator Deutsche Post reacquired Deutsche Postbank in 1999, from which it had been separated by the German Government nine years earlier, and also acquired a commercial credit institution. Deutsche Post's financial services account for almost a quarter of its revenues and rank second in profitability after its protected monopoly in domestic mail services [Deutsche Post *Annual Report,* 2000]. In addition, Geopost, newly created by La Poste of France and Poste Italiane, and the Dutch postal system under ING Barings-TNT Post Grope are also offering a wide range of financial business services, including factoring and equipment leasing.

Also interesting in this regard is the fact that privatized posts-cum-banks, such as Deutsche Post, as well as banks, as noted above, have sought to invest in postal financial services internationally. Foreign-investing private operators, whether banks or postal systems, expect substantial earnings from their postal and financial services business in other countries. Of particular attractiveness to foreign banking interests is the central role that postal remittance services play in individual and household payments in CIS and Eastern European countries, including the delivery of pension payments, social welfare benefits, and payment of bills, as for utilities and taxes. This is unlike the commercial banking sector, which plays only a minor role in per-

27 Fortis, which owns Belgium's postal savings franchise until 2010, is also seeking the postal life insurance franchise, which is in the hands of a competitor. The combined franchise would provide a significant cross-selling opportunity for the insurance component of the Fortis group [author's interview].

sonal retail payments in these countries. Indeed, it has been estimated that postal financial services account for a significant amount of postal revenues, upwards of 80 per cent in these countries ["Harmonization of postal money orders (including Giro systems)," a report of the ING Postbank Consultancy for the European Union Phare Programme, 20 June 2000].

1. Restoring synergies: the reintegration of postbanks and postal services

We referred earlier to the German experience in which the postbank was separated from its postal system, privatized and later reacquired by the now-privatized postal service. As with Deutsche Post, the Netherlands' postal system had undergone a similar transformation. Both have sought to make full use of the synergies of the postal network, which has increasingly drawn them further into postal financial services.

Like Deutsche Post today, ING Postbank functions not as a stand-alone institution but as a part of a multi-function service strategy. The Dutch postal savings system and postbank were efficient operations when they were publicly owned. However, as a result of a decision of the Dutch Cabinet to attempt to rescue the failing Netherlands Middenstandsbank (NMB), a private commercial bank, the Postbank was merged into NMB. The NMB-Postbank was unsuccessful and was ultimately acquired by the ING Insurance conglomerate, now known as ING Barings [author's interviews]. The Postbank has functioned more successfully under its latest owner, most likely because ING Barings is also the fifty per cent owner of the Netherlands Post. With the Postbank and the Netherlands Post under the same ownership, the two institutions can again tap the synergies possible in agency relationships based on mutual interests ["Best Practices in Postal Banking: Case Study 'the Netherlands'," ING Barings Postbank]. The same would be true of cross-owned institutions.

In Germany, division of the post and the postbank had led initially to severe operational discord. When ownership of the Deutsche Postbank was separated from the Posts by the German Government, the result was a nine-year period from 1990 to 1999 marked by constant disagreements at all levels and areas of operations between the Postbank and the Posts, accompanied by the Postbank's yearly demands for further reduction of franchise fees to the Posts. Only after Deutsche Post reacquired the Postbank and common ownership was reinstated in 1999 was managerial harmony restored [author's interviews].[28]

F. Conclusions

In sum, the cases we have discussed illustrate some of the major hazards of the privatization process. Chief among them, as was seen in Finland, Sweden, and the United Kingdom, is the potential destruction of the important symbiosis between postal financial services and the posts whereby postal financial services significantly support the cost of maintaining the postal network upon which both are dependent. The separation of the postbank from the posts effectively destroyed synergies that made providing financial and postal services to lower-income and rural populations financially feasible. The cases of the transition economies also make a point which should be underscored here. As was seen, many governments have undervalued their postal savings institutions both as financial and social-economic assets. This in turn led to opportunistic mergers and sales, subsequent liabilities requiring intervention and bailouts and, worst, the reduction or elimination of services. On the other hand, some private sector operators, such as ING Barings and Deutsche Post AG, realized opportunities in maintaining the postal network and the profitable synergies it has with postal financial services.

In other words, in the policy debate over separation and privatization of postal savings operations, analysts seem to have missed a crucial point. Postal financial services make possible more intensive use of the postal network, reducing costs through economies of scale in transactions through the postal infrastructure. This synergistic relationship produces opportunities to provide

28 After rejoining Deutsche Post, the Postbank strategically shed 300,000 of its least profitable accounts, mostly pensioners. This might not be too troublesome for these depositors since Germany has a well-developed network of 564 Sparkassen (municipal savings banks) for small-scale savers, which we discussed in Part II, Section B.

low-cost services such as postal savings, postal checking and giro, postal life insurance and pension plans, money orders, overseas remittances, and so on, as well as mail delivery. However, after policy makers split apart the postal and financial services, it seems that at least some privatized operators rediscovered the synergies from recombining them. As policy makers in developing and transition economies contemplate the separation and privatization of their own financial and mail delivery components of their postal systems, these experiences might be fruitfully kept in mind.

V. Asian experiences in postal savings

A. Introduction

1. The legacy of colonialism

The countries which have had the most extensive experiences with postal savings outside of Europe have been in Asia. The origins of the Asian systems trace back to the merchant and military operations of the European imperial powers. Spain and Portugal, then Holland, Great Britain and France gave an international scope to postal operations as their merchant fleets carried mail as well as cargo to ports in Asia, Africa and the Middle East. With the advance of colonial conquest into the interior, a system of colonial posts routinely supplanted the native merchant post infrastructure. Many colonial postal savings programmes were established towards the end of the 19th century, but catered primarily to serving the savings and remittance needs of the colonial civil service employees. At that time there was little thought given to the mobilization of those savings to improve conditions in the colonies or, for that matter, to meet the financial service needs of the indigenous populations.

2. Post-independence: mobilizing savings

It was after national independence from British colonial rule in Asia that the Post Office Savings Bank (POSB), a 19th century British institution, began to evolve in different directions in different countries. Some resulting types include POSBs in Bangladesh and India which operate not as banks but as agencies of their respective countries' National Savings Organizations (NSOs). In Malaysia and Sri Lanka, the POSBs have been transformed into National Savings Banks that have independent branch networks with full banking functions. They still utilize the postal infrastructure, but with severe limitations on the services and products that may be offered through them.

The savings system has evolved as well in many of the CIS countries. As noted earlier, the Sberbank, a national savings institution, had been the only savings institution under the Soviet system. In the Russian Federation, it remains under the ownership of the State Bank and is by far the largest and safest of all financial institutions. In many of the other CIS States, the chief savings institution, now re-named Narodni Bank (People's Bank, Halyk Bank in Kazakh), has been put under market pressure to transform itself into a commercial bank and relinquish its original mission of offering savings and financial services to serve the broadest possible population. At the same time, market liberalization forces also gave the impetus for new postal savings systems in Kazakhstan, Mongolia, and Viet Nam, as the posts sought to create new profit centres to replace the loss of former telecom earnings.

In China, postal savings was abolished in 1952 when personal savings was subsumed under the People's Bank of China, the central bank. In 1986 postal savings was reintroduced at the initiative of the central bank in an effort to mobilize savings. It has shown remarkable growth in the 1990s as a repository of rapidly rising personal savings resulting from the opening and development of the private-sector economy. A similar rapid growth in postal savings resulting from private-sector activity began in Viet Nam after it established postal savings in 1999.

In Japan, the postal savings system has long been an important collector of savings and provider of financial services for middle, low-income and rural people, and has played an important role in the financing of public capital investment. The Japanese postal savings system was established in 1874, at a time when Japan had just left behind centuries of feudalism and isolation. Its leaders took note of the foreign indebtedness of the Chinese and Ottoman empires, and, using its new postal savings system as a foundation, the Japanese State was able to forswear all foreign borrowing for the next 30 years (until the advent of the Russo-Japanese War). The Japanese model has also had an impact on the Republic of Korea, Taiwan Province of China and many other areas in Asia that came under its colonial and military occupation [“Postal Savings System” M.J. Scher in *Encyclopedia of Japanese Business and Management*, A. Bird ed. Routledge, London, forthcoming 2002]

Other models have had some influence on the development of postal savings and postal checking in Asia. These include: the Dutch postal system in Indonesia; the Austrian model of postal savings and giro system during the time of the Ottoman Empire, which was followed in Turkey, Iraq, Lebanon and Syria; and the Philippines system, which first established postal savings in 1906 under a U.S. administration, its success contributing to the introduction of postal savings in the United States itself in 1910.[29]

Although many of the Asian postal savings systems were founded during the colonial era and have been informed by a colonial past, all have evolved in their own right, adapting to their respective countries' social, economic and political environments. All offer valuable lessons to developing countries in the differences and similarities of their experiences.

In what follows, we examine institutions that are being successfully used in a variety of economic and institutional environments in Asia. The focus is on issues which lie at the heart of the concerns in developing countries relating to the mobilization of postal savings: financial product development and promotion, postal savings in rural areas, the credit function and the building of partnerships with other institutions, agency problems and private sector competition, overseas remittances, the investment and intermediation of funds for development, management operations and the utilization of technology. It is also within this context that we are able to relate the issues discussed earlier, in Sections II-IV of this paper, regarding market liberalization, foreign entry and acquisition, postbank creation, separation, and privatization as they may affect savings institutions in developing countries and transition economies. We also discuss issues bearing on postal payment systems, particularly as regards international transfers.[30]

B. Management and competition issues in Asian systems

1. The organization of postal savings: four models

One may distinguish four types of organization for providing savings services through the postal infrastructure in Asia: 1) the national savings organization, as in Bangladesh and India; 2) the postal savings bureau, as in China, Japan and the Republic of Korea; 3) the linkage of savings to a postal payments system, as proposed in Kazakhstan and other CIS States; and 4) the national savings bank use of the postal infrastructure, as in Malaysia, Sri Lanka and formerly Singapore (postbanks, as discussed in Section IV, would also belong in this category). Individual country cases serve to describe the different types.

National Savings Organization: the case of India. India has by far the world's most extensive postal savings network and the oldest one among developing countries. Some 154,000 post offices all offer postal financial services even in small and remote villages; overall it is estimated that they service some 116 million account holders with some Rs. 1,817 billion on deposit (approximately $42 billion). Originally organized during British rule in 1883, since India's independence in 1947 the Post Office Savings Bank (POSB) has offered an extensive array of postal savings schemes and other financial products, albeit acting as an agent of the National Savings Organization (NSO), a division of the Ministry of Finance. Currently the POSB offers some 12 different savings instruments, each crafted to meet the savings requirements of different markets.

The NSO designs the various savings products and markets them through a trained sales force of 500,000 licensed agents. These agents are assigned to sell specific savings plans to targeted markets, such as rural women, industrial workers and the like, and receive a 1 per cent commission on the deposits they collect and deposit in the POSB. Since 1947 the NSO has introduced, revised and/or withdrawn some 230 plans in response to market conditions and mobilization objectives. Although many

29 The first American-appointed Civil Governor William Howard Taft first proposed postal savings in 1904 in the Philippines. Taft was later elected U.S. President, and it was also during his presidency that postal saving was first instituted in the United States.

30 The discussions of country experiences to follow are based in part on the case studies being prepared for the DESA/Keio University project (see footnote 4) and in part on the author's observations and interviews in the countries concerned.

of the same NSO products are also offered by Government-owned commercial banks, those sold by the post office account for some 85 per cent of all household savings in financial institutions in India.

Since 80 per cent of the funds mobilized go to the States, each Indian State Government has a Small Savings Organization which vigorously promotes postal savings. For example, some States operate lotteries with cash prizes tied to savings deposits or encourage small businesses to deposit funds in postal savings rather than commercial bank accounts in consideration for additional and/or future government business or other inducements, such as the speedy approval of business licenses.

Postal Savings Bureau: the case of China. Following the re-establishment of China's postal savings system in 1986 after a 34-year hiatus, both postal savings and remittances have shown dramatic growth, particularly in urban areas, and have an increasingly large market share in the collection of individual household savings. Initiated with the assistance of the People's Bank of China (PBC, the central bank), the Postal Savings Bureau has served as a vital link in mobilizing income and profits from the private-sector activities encouraged by the Government's economic reform programme, with all funds transferred to the PBC.

In its first years of operation from 1986 to 1989, the Bureau functioned merely as an agency of the PBC, receiving a fixed commission of 2.2 per cent of the funds on deposit. In the subsequent decade, market principles were introduced and the Post was able to profit on the difference between the PBC's wholesale rate and the retail rate. All funds, however, were still deposited with the PBC. Most recently, the postal savings system has become a separate corporation under the State Post Bureau with the future possibility of intermediating funds to other financial institutions such as development banks.

At the end of 1999, 380 billion yuan were on deposit in the postal savings system. There are some 104 million postal savings accounts. Eighty per cent of China's post offices provide postal savings services; of the 31,544 post offices with savings facilities, 22,081 are located in rural areas. However, only 30 per cent of all deposits are from these rural branches, where incomes are lower and there is strong competition from rural credit cooperatives [author's interviews]. Postal savings deposits exhibited an extraordinary annual growth rate of over 50 per cent per annum in the first half of the 1990s and over 24 per cent per annum in the second half of the decade. In 1998 postal savings accounted for 47 per cent of China Post's operating revenues. By 1999, 63 per cent of the postal savings branches were computerized, and all were expected to be so by the end of 2000.

Linking savings to postal payments: the case of Kazakhstan. Kazpost is the name of the Republic of Kazakhstan's State Enterprise of Postal Services. With a relatively small and declining population (14,952,000 in 1999), Kazakhstan has 3,800 post offices spread over a territory almost the size of India (2,724,900 sq. km.). In August 1999, Kazpost established the first postal savings system among the CIS republics. Savings mobilization, however, is a sideline to the main financial service of Kazpost, which is to operate an extensive payments system for individuals and households on behalf of the State, as is the case in most of the other CIS economies in transition. Kazpost has primary responsibility for the distribution of pensions and other social-benefit payments, as well as the distribution of salaries, including those paid by some private enterprises. Twice a month pensioners and other recipients line up at their village post office on an appointed day to receive their pensions in cash, which are delivered to the post offices by armored vehicles. If the funds are not claimed within three days they are returned to the central accounting office. Current government regulations require that only delivery be effected and prohibit the direct transfer of these funds into customer savings accounts. It has been proposed that this regulation be changed to permit the signing of direct deposit agreements with individual pensioners.

After a year's operations, Kazpost still remained handicapped by the lack of direct pension deposit facilities, and postal savings deposits which had been targeted at one billion tenge, stood at 110 million tenge (about $775,000). In 2000, roughly one-fourth of the branches, some 1,000 post offices, were offering postal savings accounts. Kazpost offered eight different types of savings products. Savings can be held in tenge or in U.S. dollars. The minimum account size is 500 tenge ($3.52), and $10 for U.S. dollar accounts. Kazpost is restricted from offering the greater variety of products with higher interest rates that its commercial bank competitors are allowed to offer. The National Bank (central bank) requires that all postal savings funds collected be invested in State securities (tenge and U.S. dollar denominated). Postal savings offered a 10 per cent interest rate guaranteed by the Government on tenge accounts to its depositors in 2001.

Household savings are mainly held in the national savings bank, Halyk Bank. The majority of depositors of both Halyk Bank and Kazpost are pensioners and salaried workers. In 1999, the two institutions reached an agreement whereby Halyk Bank would transfer its rural operations to Kazpost, while retaining its strong urban franchise through its own independent branch network. Halyk Bank is also pursuing its own goal of privatization and transformation into a commercial bank.

National savings banks: the cases of Malaysia, Singapore and Sri Lanka. In some cases, postal savings regimes have been converted from POSBs, a division of the post office, to national savings banks (NSBs). This was the case in Malaysia, Singapore and Sri Lanka, where the POSBs were newly chartered as publicly-owned savings institutions in the early 1970s. The new NSBs began to open banking branches in urban markets that were separate from the postal branch offices, while continuing to rely on the postal infrastructure in an agency relationship, especially in rural areas. Sri Lanka's NSB has continued to use all of the 4,012 post offices and postal sub-stations. Malaysia's NSB, by contrast, set about creating an extensive independent branch network, relying on the postal network only in remote regions where independent branches were not economically feasible. In recent years, Malaysia's NSB has had to scale back the number of its bank branches in favor of again using post offices, finding that it had overreached itself in its original plan in some areas where it was too costly to maintain separate branches.

With a move to own independent branch networks, the NSBs in all three countries, to a greater or lesser extent, have adopted urban service strategies aimed at competing with commercial banks for the more affluent, upscale market of young professionals. In adopting such strategies, however, they have departed from their primary, or at least initial, mission of providing financial services to all segments of the population. This shift in focus was accompanied by a de-emphasis on rural savers and the urban poor, with the rural and urban poor populations only having post office branches geographically near them. Under this regime, postal branches offer only a small number of financial products with limitations on services, particularly savings withdrawals, compared to the much more extensive range of products and services offered by stand-alone NSB branches, thus creating a two-tier savings system. Nevertheless, many customers say that they feel more comfortable patronizing the post office branches.

The development of a two-tier system has been reflected in the widely differing physical conditions of the servicing facilities. Aging, deteriorated conditions of the post office branches have contrasted sharply with air-conditioned urban mini-branch savings bank offices. This was especially true when these NSBs first came into existence in the 1970s. In Malaysia and Singapore the posts have since been modernized so that their counter facilities run as smoothly and efficiently as any bank, and in Sri Lanka some post offices have been modernized as well.

Singapore's POSBank provides an example of the ultimate evolution of a two-tier system. It first embarked upon an independent branch network strategy in the 1970s, based on a two-tier infrastructure like the one described above. By the 1980s the Singapore POSBank abandoned the use of the post office's branch network and separated completely from the postal infrastructure. In 1999, the Government merged the POSBank with DBS Bank, the former government-owned Development Bank of Singapore, to provide a deposit base for what would be a new, private commercial bank. DBS Bank, which did not have the social obligations of POSBank, immediately adopted an upscale marketing strategy targeting affluent young professionals and entrepreneurs. More than half of the POSBank's 133 branch operations were soon closed; all of them were in poorer residential areas. It also raised the no-fee minimum for passbook savings from one Singapore dollar to S$500 (US$287). Consistent with this overall strategy, the latest figures indicate that 80 per cent of the POSBank's branches were closed as of 2000.[31]

31 In 2001, the Singapore Government has become concerned about their unbanked population, and echoing the concern regarding social banking issues discussed in the United Kingdom case in Section IV, is seeking to mandate limited low-fee accounts at all domestically-owned banks as a solution [author's interview].

2. *Agency problems: disincentives to mobilizing savings*

Issues bearing on the nature of agency relationships and disincentives to mobilizing savings arise when management of savings operations in the posts is separate from ownership of the savings operations, as earlier discussed in the European context in Section IV, in the sub-section on the loss of savings services after privatization of postal savings. This has been the case in Asia as well, whether the savings facility takes the form of a national savings organization (NSO), as in Bangladesh and India, or national savings bank (NSB), as in Malaysia and Sri Lanka. Principal-Agent relationships, both managerial and economic, require contractually-defined incentives for the posts as agents to align their interests with the owner-principals, such as the NSO, NSB or Postbank. If no such incentives exist, then disincentives govern the relationship. The latter has been/can be the case even when both sides are publicly owned, as were the posts and the NSOs and NSBs in the Asian case studies, or, as was seen in the examples discussed in Section IV, when the publicly-owned posts in Finland and Sweden were separated from their postbanks, which were then privatized, or in the case of Deutsche Post and Deutsche Postbank, when both were privatized separately.

Sri Lanka provides an example of incentive problems that can arise in an agency relationship between the posts and an independent NSB. The separation of the Post Office Savings Bank (POSB) and its reconstitution as the National Savings Bank in 1972 led to a dual system of savings networks: an independent system of NSB branches in the major cities and a separate network covering the whole of the country that utilizes the postal infrastructure with postal employees as its agents. Despite increases in the gross value of postal deposits, the NSB has complained that the posts are not doing their best to promote savings, since postal deposits have steadily declined in terms of their percentage of the overall value of NSB deposits. The value of postal deposits decreased from 66.9 per cent of NSB deposits in 1972 to 22.7 percent in 1982, to 12.4 percent in 1992, and to 9 percent in 1999, suggesting that the NSB might be doing a more effective job in mobilizing funds through its own branch network in the major cities than through the post office network.[32] On the other hand, many Sri Lankans find it necessary to hold two accounts, one at the post office, since only the post office savings accounts allow them to make deposits and withdrawals at all post offices throughout the country, and another account at an NSB branch which is limited only to that district but offers more savings products and services.

The postal system, from its perspective, views its relationship with the NSB as under-rewarded, especially since the NSB puts more of its resources per depositor into its own branches and targets the more affluent savers. The Sri Lankan posts have raised the possibility of obtaining new revenues by replacing their relationship with the NSB with other agency relationships with rival financial institutions. Such a change occurred in Malaysia, when the posts broadened their agency relationships after the NSB eliminated its use of post offices in urban areas in favor of its own branch network. In India, postal officials have voiced dissatisfaction that their compensation is based solely on an annual franchise fee without the commission fees that other agents and financial institutions receive for similar services. As a result, India’s Posts have begun to market the investment products of private financial institutions.

For the posts, appropriate recompense for their services is a matter that requires both testing the market for its agency services and assessing the costs of providing the services. Sometimes, despite the regular availability of information, neither the post nor the NSB does the requisite cost analysis, and opportunities are neither seen nor seized. In the case of Sri Lanka, monthly reports have been generated for years from all of the country’s over 4,000 post offices. These reports, which give a daily accounting of the number and size of transactions, are not analyzed for transaction costs. This may reflect a lack of incentive, owing to the NSB’s long-standing agency agreement with the posts, by which the posts’ compensation, ex-

32 These figures may also reflect the different growth rates of income and saving in rural and urban areas.

cept for an inflation adjustment clause, has not changed since the early 1980s. The agreement provides no incentives to the posts to promote savings deposits or to go beyond fulfilling only the minimal contractual obligations.

The Sri Lankan experience is illustrative of a phenomenon that commonly arises when the posts contract to act as an agent for an institution in which they are not a stakeholder, typically a separately chartered post bank or savings bank, either private or publicly owned. Often the contracts provide the posts as agent with little or no incentive to promote postal savings. Most agency agreements that this author has examined were based on a flat annual franchise fee to the posts, calculated on some historically based estimate of the number of annual transactions. In some cases, however, compensation to the posts was on a per-transaction basis; in others the posts rented their counter space to an assortment of financial firms which were not necessarily savings institutions. Supervising government authorities therefore have an interest to ensure that appropriate incentives are built into any agency relationship established for the provision of postal savings services.

3. Are postal savings in competition with commercial banks? The case of Japan

In Asia and elsewhere, postal savings have been sharply criticized as "unfair" competition for commercial banks. As a case in point, for many years the Japanese banking industry has clamored for the breakup and privatization, if not the abolition, of the postal savings system, commonly referred to as *"Yu-cho."* Postal savings deposits in 1995 exceeded the combined savings deposits of Japan's six largest banks (Dai-Ichi Kangyo, Sumitomo, Sanwa, Tokyo-Mitsubishi, Fuji and Sakura Banks), amounting to some 34 per cent of all household savings deposits in all financial institutions nationwide. By 1997 this figure was some 42 per cent, and on the rise as Japanese public confidence in its banking system continued to fall due to the non-performing loan problem plaguing the banking industry that is well covered in the Japanese press. In 2001, postal savings deposits were almost equal to the combined total of household and individual savings deposits in all commercial banks.

Critics from the banking industry have complained that numerous exemptions, including exemptions from all national and local taxes, payments to the Deposit Insurance Corporation, Bank of Japan reserve requirements, and the requirement that private banks pay dividends to their shareholders, give unwarranted advantages to the postal savings system.[33] Bank critics further argue that postal revenues subsidize the entire infrastructure of the postal savings system. The post, however, has conducted its own analysis of the costs allocated to labour and apportioned use of space that specifically refutes these charges. In addition, postal officials counter criticisms by pointing to the costs they bear in providing postal, savings and life insurance services in rural areas. It is likely the case that without postal financial service revenues many small and rural post offices in Japan would have to be closed, as was the case in Finland and Sweden discussed in Part IV, Section B.

Putting these charges and counter-charges aside, the success of the Japanese postal savings system in attracting deposits is much more likely attributable to the confidence factor and to the fact that the more than 24,000 post offices in Japan function as collection points for its savings system, far outstripping the 16,000 branches of all commercial banks. Japanese people are on average within 1.1 kilometer from a post office, the offices of which are uniformly distributed in rural, urban and suburban populations, while bank branches are typically found clustered in business districts. Of the 3,235 cities and municipalities that have post offices, 567, some eighteen per cent, are without banks.

The existence of the postal savings system may raise the quality of private banking services available to the general public. The postal savings system in Japan has been a factor in keeping the private sector competitive in the services offered. The consumer-oriented Japanese postal savings system offers products such as life insurance as well as a nationwide network of about 22,000 automatic teller machines that can be used to make deposits, withdrawals, credit card payments, or to pay utility bills or transfer payments to anywhere in the

33 The banks' chronic losses over the last decade have also resulted in their paying no taxes and issuing minimal or no dividend payments.

country at lower fees than charged by banks. As a result, banks have begun to respond to the competitive pressures of the postal savings system.

A large reason for the complaint about the postal savings system by commercial banks is that the commercial banking sector relies heavily on individual and household savings, chiefly from the accounts of employees of the client firms of a bank. These accounts have historically formed the mainstay of a bank's deposit base under Japan's so-called "main bank system" whereby corporate finance in Japan has been largely mediated by the banking sector, especially within groupings of affiliated companies.[34] The shift of household deposits out of the employee accounts into postal savings has been quite a significant loss to the commercial banks and thus a factor in the declining efficacy of the corporate lending system.

Although cost efficiency, certain former tax advantages and the ongoing banking crises explain part of the competitive edge of the postal savings system in Japan, the Tokyo Stock Exchange's poor performance since its collapse in 1989 is another major reason that the public has been seeking safe placements for the investment of household savings. Together, these factors have left the public with few alternatives to the convenience and security of the postal savings system.

4. Financial technology: choosing appropriate systems

Whatever the organizational form of postal savings, important management decisions have to be made regarding the technological upgrading of savings services. Today, relatively low-tech methods developed over time by the posts to mobilize savings through the postal infrastructure often still provide efficient and economical service without the need to invest in high technology equipment. For example, in Sri Lanka account verification procedures are conducted by fax when clients need to make rapid withdrawals,[35] and low-tech microfiche readers are used for signature verification for withdrawals throughout the system. The sufficiency of low-tech methods notwithstanding, consultants and equipment sales people typically urge the posts to upgrade to the technological level of private sector banks, resulting in a needless and wasteful diversion of scarce financial resources. These expenditures often ignore the fact that many high-tech systems and services are not designed to meet the needs of the typical constituency of postal financial services in developing countries. The outcome can even be that the NSB or postbank needing to rationalize its investment, reorients its marketing strategy to compete with commercial banks in serving the needs of an upscale urban clientele.

The lack of fit between the objectives of many consultants and those of developing countries is evident from the consultants' recommendations that were reported by various postal administrations in Asia [author's interviews]. For example, the capability to perform on-line interactive processing of transactions is generally presented by consultants as a necessity, even when private sector financial institutions are not using such systems, or only in limited geographic areas, such as the capital city and perhaps some other major city. Typically, to acquire on-line transactional processing capability requires investment in a telecommunications infrastructure as well as new hardware and software computer equipment to handle the task. Private sector banks typically employ overnight batch processing, which requires only the limited use of one phone line at non-peak hours rather than interactive on-line processing which would require a more complex communications network. Indeed, overnight batch processing is the norm in the regional operations of many banks in developed countries as well.

Also, since technological advances in hardware, software and communications networking continue to expand quite rapidly, the prices for such systems have been falling steadily and developing countries can reap benefits from not adopting such systems before they are necessary and acquisition costs have declined. In addition, inexpensive, modularized, off-the-shelf systems,

34 See Mark J. Scher, *Japanese Interfirm Networks and Their Main Banks*, London and New York: Macmillan Press Ltd./St. Martin's Press (USA and Canada), 1997.

35 The similar use of fax machines in Morocco and the United Republic of Tanzania points to the value of establishing mechanisms for fostering the exchange of practical experience in the use of suitable technology between developing countries in a field that is otherwise dominated by developed countries' vendors selling costly high-tech systems.

well tested by banks in different market environments are available, and may be customized to fit both specific financial products and the technical requirements of developing countries. These systems dwarf the capabilities of old-technology systems still in place in the postal savings systems of some developed countries. Unfortunately, these old systems are being promoted to developing countries, despite that fact that they are many times the cost of the off-the-shelf systems. Moreover, these “legacy systems” are based upon financial products designed for the clientele of developed countries and may lack the capability to process the financial products suitable for clients in developing country markets.

Some of the developing countries in Asia, such as India and Kazakhstan, have or are developing their own dedicated systems, although issues of compatibility with other financial systems in their own countries and abroad have not yet been addressed. Compatibility with other systems is a prerequisite for electronic transfer of overseas remittances (international giro), and open architecture-based financial technology systems would facilitate the posts in more easily acquiring agency relationships with other institutions in the future. In India, the provision of postal financial services at postal counter-based Internet connections is being testing on a trial basis in some States. A commercial vendor of agricultural chemicals and insecticides delivered via the posts is bearing the cost of the trial installation of this system, which may prove to be a prototype of dual-use partnership with the private sector that can be followed elsewhere.

C. Mobilizing savings: product development and market analysis

Developing countries that have policies to promote postal savings offer a wide range of products appropriate to their economies, with features designed to appeal to specific segments of the population. Some of the postal savings products in use in Asia include: products designed for women in households or engaged in entrepreneurial activities; products aimed at the needs of small-scale enterprises, including small-scale farmers and agricultural businesses; and products for industrial workers, salaried workers, civil servants, professionals, overseas workers, youths and students. There are also specially constructed products adhering to religious laws (such as *Shari'a*), and special services and products for those who traditionally save in kind, such as in gold, livestock or land. The following section examines issues that arose in Asian countries with respect to the socially important area of product development and marketing.

1. Postal savings in rural areas: making a link to credit

The social mandate of postal savings is to offer access to financial services to all population groups. To do so effectively requires offering products suitable to rural farmers, which are different than products designed to meet the needs of salaried civil servants. For example, in many countries postal savings products are tax-exempt, designed to appeal to urban salaried workers whose income is taxed. This kind of product has little appeal in rural areas where farmers are either exempt from taxation or are taxed in-kind on their production of grain.

Chief among concerns of rural savers, after safety and accessibility to savings, is access to credit, particularly where in-kind savings predominate and are not easily liquidated to meet short-term emergency cash needs. The postal savings systems of most developing countries do not offer credit. Rather, agricultural credit cooperatives often have an established position in the countryside as a result of the credit they offer to farmers. The cooperatives may also take deposits. Despite their apparent competitive positions, a symbiotic relationship can be forged between the postal savings system and the credit cooperative. For example, in rural areas of India, long-term savings are usually held in the postal savings system and short-term savings in credit cooperatives. There is generally a rise in the number of time deposits at the postal system following a harvest, as farmers save a portion of their earnings. Farmers at credit cooperatives transact short-term deposits and withdrawals year-round. In addition, farmers and others can use postal savings deposit certificates as collateral for loans from credit institutions to cover additional credit needs.

In China, the Postal Savings Bureau has a less symbiotic relationship with rural credit cooperatives and thus has a smaller rural presence than postal savings in India. This reflects in part the decentralized character of China's posts and the fact that they lack both a national programme and specific strategies designed for the differing needs of the rural areas of China's 32 provinces and special administrative areas. Even more important, however, is that rural credit cooperatives already collect deposits and extend credit in the countryside. Moreover, postal services themselves are subcontracted in rural areas by the posts to the respective local People's Committees, which have close ties to the credit cooperatives, resulting in a reduced "corporate" presence for the posts.

A similar situation exists in the Republic of Korea, where the chief competitor of postal savings in the countryside is the Bank of Agricultural Credit (BAC). In 1977 the Ministry of Information and Communications, which supervises the Korean Postal Service (KPS), decided to concentrate its resources on the development of a telecommunications division within the KPS. The functions of the postal savings system were transferred to the BAC. Later, the KPS was stripped of its telecommunications division and it resumed postal savings operations once again, but now with a formidable competitor of its own making in the countryside. Nevertheless, the introduction by KPS of competition in banking in the rural areas has been seen as a benefit to the local population. Today, 30 per cent of KPS deposits are from rural areas due to an extensive branch network that is 70 per cent rural even though the Republic of Korea is rapidly becoming urbanized. On the same principle, the Central Bank of Mongolia recently licensed the Mongolian State Posts to introduce postal savings in rural areas to counter the market dominance of the agricultural credit cooperatives.

The foregoing examples are not intended to suggest that postal savings institutions should themselves extend credit. Postal staffs are not generally trained in assessing client creditworthiness, whereas agricultural credit association staffs are trained for this function, as are staffs in micro-credit institutions, where they exist. In Thailand and Viet Nam, for example, senior planners and managers in their respective Departments of Posts expressed the feeling that they were hampered in their ability to compete with the banking sector by a lack of knowledge of financial service industry practices, as their training was in postal matters and not in financial services. Not only does the staff have to be able to identify promising credit prospects, but they also work with them and with others in providing ancillary services, such as advice to small business owners. Given their respective strengths and shortcomings, postal savings systems and credit cooperatives, as well as non-governmental organizations involved in microcredit schemes, can form alliances to provide together the complementary operations of microsavings and credit.

Postal financial systems, for example, as in Indonesia, can complement the operations of credit institutions by acting as an agent for them in the disbursements of prearranged loans, as well as the receipt of installment repayments of the loans. The postal service network can provide essential agency services for local agricultural credit cooperatives, microcredit and other finance institutions, as well as other financial institutions that lack a rural network infrastructure.[36]

In many countries the agricultural credit-cooperatives come under the jurisdiction of the ministry of agriculture, small business credit institutions under ministries of commerce or industry, while mortgage-lending institutions may come under the ministry of housing or some other government entity. In such situations, fostering inter-ministerial cooperation needs to be one of the posts' goals in promoting financial services.

Similar concerns arise regarding banks and their regulators. Thus China, with the active support of its central bank, and the Republic of Korea have been able to come to a *modus vivendi* with private sector financial institutions and with their respective regulatory ministries. In other countries, such as Japan, Kazakhstan, the Philippines, Thailand and Viet Nam, the posts have been at loggerheads with private financial sector interests as well as with their respective central banks and finance ministries on a number of issues, such as limiting the size and scope of operations, investment policy, allowing the full use of the postal networks infrastructure, limitations on the range of savings products offered,

36 However, as discussed earlier in the cases with banks, in any agency relationship entered into by the posts, it is essential that the agency agreements be drawn appropriately to be mutually beneficial.

and competition with existing commercial and savings institutions. In a number of countries, despite the potential for expanding the natural complementarities of postal savings and remittances with credit institutions and other financial service institutions, bureaucratic obstruction and institutional rivalries often prevent this from taking place.

2. Overseas remittances via the posts

For many developing countries in Asia and elsewhere, a significant amount of foreign exchange comes from the remittances of nationals working overseas. Examples include Philippine nationals working in Hong Kong Special Administrative Region of China, Singapore and the Middle East, and workers from Bangladesh, India, Pakistan and Sri Lanka employed in the Persian Gulf States.[37]

In China, overseas remittances to family members by emigrants also provide a substantial flow of income to certain regions of the country, and is reflected in the relatively higher amounts of postal savings deposits in provinces such as Fujian, Guangdong and Hainan. Other regions in which postal savings do well due to private sector entrepreneurial activity include heavily urbanized areas and industrialized provinces. In Viet Nam, high levels of overseas remittances are reported in the southern half of the country, mainly from the Vietnamese immigrant community in the United States.

For these overseas workers, a safe and convenient means of making remittances to their families in their villages is an important concern. Although international money orders via the posts have existed for many years, their use has been limited because the receipt of funds is slow and not all countries provide this facility. On the other hand, the cost of electronic bank transfers is extremely high compared to the modest sums typically being remitted. In response to such factors, many migrant workers frequently resort to informal couriers who charge lower fees but subject the funds to greater risk.

In some countries, the regulatory regime has prevented the posts providing its own services to compete with banks and private money-transfer firms. Companies like Western Union and Moneygram, the two largest non-bank global operators who offer rapid cash remittances, have agency agreements with many banks, the postal system and others. Generally, the success of these companies derives from their cost-effective use of the postal system's extensive network. For example, a majority of Western Union's more than 100,000 worldwide agency locations are post offices. In addition, the recipients are mostly in countries where the posts do not offer reasonably prompt transfer payment options. Nevertheless, despite their use of the postal infrastructure, Western Union and Moneygram's fees are disproportionately high in relation to the amounts remitted, and an extremely disadvantageous exchange rate may be charged in markets that lack competing services. With a lack of alternative remittance systems, the result can be $25 to $30 in fees for remittance and exchange of a $100 transfer of funds [authors interviews; *International Herald Tribune*, 16 August 1999].

However, as noted at the outset of this paper, in a number of countries there is an alternative method of long standing by which foreign exchange remittances may be handled on a more affordable basis, namely giro facilities, postal checking and savings accounts with direct deposit features. Where they have been introduced, international giro payments have low fees. Indeed, the transaction fees for remittances among the European countries, Japan and the Republic of Korea are equivalent to only a few dollars each.

Foreign currency exchange into local currency is another aspect of international remittance operations that can be brought in-house by the posts to the benefit of both the client and the posts. Kazpost, Kazakhstan's postal operator, obtained a license for dealing in foreign exchange, thereby avoiding the foreign exchange fees charged by the commercial banks to process overseas funds transfers. This is especially important since many Kazakh nationals have emigrated to other CIS and European countries with which Kazpost has postal remittance agreements and can send money to their relatives in Kazakhstan. It is important

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37 Similarly, emigrant workers from the Middle East, North and West Africa are employed in the European Union countries and within Africa itself; contract workers travel between economies in transition and industrial countries, and between Central America, the Caribbean and North America, to name just a few of the regional patterns of worker migration.

as well to the high volume of Kazakh "shuttle-traders" who buy goods in other Asian countries, such as China, India, Republic of Korea and Thailand.

Kazakhstan has established—and China plans to introduce—U.S. dollar denominated postal savings accounts, in part to encourage overseas remittances. Kazpost thus helps its clients retain more of their savings through a simplified transaction that eliminates fees to third parties. In addition, these money-changing activities provide Kazpost with an important source of revenue. As the Kazakh tenge, the U.S. dollar, and German mark are freely convertible, this service also aids in important cross-border trade between Kazakhstan and several of its CIS neighbors.

Another important issue is the design of savings products that will enhance the volume of overseas remittances. These include special savings vehicles relating to family housing, farmsteads, investment in small businesses and the education of family members. Savings vehicles that benefit local community public works, such as hospitals and schools, can also attract the special interests of overseas workers, as has been the recent experience in the Philippines.

3. Economic growth: is tax exemption necessary in mobilizing funds?

A further issue involves postal savings resources and the national treasury. It is the practice of offering tax-exempt savings products, as in China, India and Viet Nam. Despite the costs of these products to the treasury, such costs may be outweighed by the volume of low-cost domestic funds mobilized, which are then lent to the government. For example, several of the savings products devised by India's National Savings Organization feature tax advantages, including tax-free saving certificates sold through the commercial banks and marketed to the economically upscale population. Until recently an anonymous savings certificate designed to garner money made in the black market was available that did not even require a designated owner's name or beneficiary for payment. There is a price to be paid by the public treasury for tax exemption, however, and in India the Ministry of Finance estimates that the overall cost of tax incentives amounts to 16 per cent of the value of the funds collected under the programme. In China, any number of postal savings accounts can be opened with fictitious names, and, as in Viet Nam, it remains to be seen whether these funds could be mobilized otherwise. Moreover, use of tax-exempt products, mainly benefiting the well-off, highlights the need for governments to use their ingenuity in devising and enforcing equitable forms of taxation rather than promoting schemes based upon tax avoidance.

D. The intermediation and investment of mobilized savings

Government policy on the investment of postal savings funds has been historically predicated on maintaining the public's confidence in the safety of postal savings funds. As noted earlier, postal savings systems are typically restricted to investing in government bonds and government-guaranteed securities. In all cases, the posts in the Asian countries discussed in this paper were highly restricted in their investment options by their respective ministries of finance and/or central banks. Frequently, mobilized savings funds are used to purchase general obligation bonds or otherwise help to finance the government's general budget deficit. Among Asian countries a commonly stated principle, if not explicit policy, is that savings mobilized through the postal savings system should be invested or intermediated to serve economic and social development goals.

In the case of India, fully 80 per cent of the funds collected are distributed by the Ministry of Finance to the Governments of the States in which the deposits were made. The Union Government retains the other 20 per cent. There is no specific oversight by the central government of the States' use of the borrowed funds once they are remitted to them, as they are viewed as general financing for the state budgets, the largest outlays of which are for civil service salaries, followed by debt service.[38]

38 Interest rates on some postal savings products range as high as 12 per cent, and until recently were at 14 per cent. At this level, it appears that the current debt service repayment rates are unsustainable, highlighting the fiscal adjustment challenge facing the States [author's interviews].

An alternative to placing mobilized postal savings in government securities is to place them at the central bank. In China, all funds are currently transferred to the People's Bank of China, the central bank. Future plans of China's Postal Bank include the investment of a portion of its funds in a development bank.

In recent years, alternative market-based philosophies for the investment of funds have been called for in some countries and have led to problematic attempts and mixed results which we will discuss in the next two sub-sections.

1. Mobilized postal savings funds and economic development

Since the 1880's, Japan's Ministry of Finance (MoF) has directed the use of postal savings funds towards national goals, and at various times to remedy specific problems. For example, during the inflation following the First World War, saving was encouraged to absorb excess liquidity and curb inflation. Postal savings provided resources for public-sector pump-priming for new and developing industries, and the development and modernization of infrastructure. Japanese postal savings funds have also been used to stimulate the economy during recessions or to stabilize financial markets when needed. Historically, their foremost goal has been economic development.

Beginning in the postwar period and until the end of 2000, the MoF's Fiscal Investment Loan Programme (FILP) had allocated the funds to meet national and regional development goals. In recent years, numerous critics had questioned the efficacy of the FILP programme. The question of optimal placement of postal savings resources has become a concern in recent years in Japan. The large volume of funds coming into the postal system has raised controversy over how they should be deployed, especially in the light of the vast amounts of public debt generated in efforts to resuscitate the stalled Japanese economy.

In response, a partial market approach has recently been implemented. Since the beginning of 2001, postal savings funds are being managed by a reorganized Postal Savings Agency that has been given a large measure of discretion over the investment of collected funds. The current policy calls for purchasing Japanese Government bonds with 60 per cent of the funds and allocating the remainder to a mix of domestic and foreign equities and corporate bonds, thus subjecting a significant portion of the funds to market risk for the first time. The funds are presently invested by the Postal Life Insurance Welfare Corporation and at the end of the last fiscal year (31 March 2001), reported market losses of Yen 1,297 billion (exceeding $10 billion) [*Financial Times*, 11 July 2001]. Future plans call for domestic and foreign fund managers to handle *yu-cho's* investment needs.

2. Is the market approach a realistic option for developing countries?

A market approach is not a realistic option for most developing economies which typically have shallow financial markets. Such markets are often subject to high volatility, speculative forces and opaque operations, making placement in them highly risky and thus inappropriate for postal savings. Efforts to place funds in domestic markets in Malaysia and Sri Lanka typify the problem. Their National Savings Banks are required to invest a minimum of 60 per cent of their funds, reduced in recent years from 100 per cent, in government bonds and government guaranteed securities, leaving the rest for other placements. However, they have found few prudent opportunities in which to invest the balance in local financial markets and achieve the same rate of return or safety that government securities offer. Malaysia's NSB offers its own credit products such as housing finance, small business and consumer loans; however, as this market falls far short in absorbing their investment needs, 87 per cent of Malaysia's NSB investments still remain in government securities. In Sri Lanka's case, 80 per cent is invested in Government bonds and Treasury bills, while most of the remaining balance is in short- and long-term lending to other financial institutions, and only 1 or 2 per cent is allocated to housing credit.

Some foreign financial institutions have suggested that the savings funds be invested overseas in wholesale banking markets or in foreign bonds and equities; however, these would do nothing to satisfy the development needs of the country. Moreover, these options would also expose the postal savings system to various market risks.

VI. Policy conclusions and proposals on postal savings in developing countries

The ultimate premise of this study is that postal savings and giro payments systems can be important mechanisms for the mobilization of indigenous financial resources that can be applied to domestic development. The preceding discussion points to a number of areas in which policy might enhance existing advantages of postal financial services and meet the challenges to savings mobilization through the wider provision of financial services through the postal infrastructure. We have also pointed to conspicuous problems that have confronted the posts in both developed and developing countries in the face of market liberalization and privatization. What follows are some considerations for policy reforms:

1. The first prerequisite is that governments determine whether they wish to ensure that a specified set of communications and financial services is made available nationwide at moderate cost to all users. This has long been the case in all countries that have maintained postal savings systems and related national savings institutions. Once decided that such services should exist, the question is to decide the best way to provide this function. As we have seen, the national network of the posts has been able to provide a set of related communications and financial services in the form of a fiscally viable network that is effective in serving the poor, women and rural populations, as well as small- and medium-sized business interests. However, with the general withdrawal of the state from heretofore public services, or as specific services are deemed to be less warranting of protection, the financial viability of the postal system itself comes into question, affecting the range of services offered, such as the provision of postal savings and other financial services to the unserved and underserved. If that happens, the choices are to close down major portions of the postal network or subsidize it to cover its operating costs. Alternatively, the government could decide to restrict private competition in some services in order to allow the postal system to remain financially viable. The point is to be aware of the consequences of policy being made in this crucial economic sector.

2. Postal management and policy makers must obtain the hard data needed to make informed decisions. A diagnostic accounting analysis that regularly tracks and assesses the costs versus benefits of the individual operations and products of the postal savings system is required. Such analysis would develop a system-wide information base necessary for management decision-making and the ordering of government priorities, including either possible termination or upgrading of services including more realistic assessments of proposals for the purchase of new technology and equipment. Many postal financial systems have not yet undertaken such an analysis.

3. In addition, knowledge of the operating costs for each of the system's services would permit analysis of the cost at which postal services are meeting their mandate relative to revenues earned. It could thereby enable or fortify political support for achieving social, economic, civil and cultural development goals through the posts. The following are some of the areas on which a cost/benefit analysis could focus: meeting rural communications needs, provision of financial services to low-income and rural populations, small business development, educational/library class post rates, non-governmental organization rates, public service and government's free-franking privileges. At the same time, postal service rates that result in subsidies to private interests should also be examined. These may include subsidized rates given to forms of mail that are used for primarily commercial purposes, such as bulk rate advertising postcards and under-priced parcel delivery.

4. It is equally important for governments contemplating privatization proposals to understand the social value of the assets they are offering for sale. As we have seen all too frequently, governments have undervalued the postal savings network as a socio-economic asset, such as when merging postal savings and government-owned postbanks with commercial institutions in order to provide a stable deposit base for a weak or failing

private bank, rescuing it from collapse and thus avoiding the political ramifications of a direct government bailout, or to satisfy political pressure to privatize publicly-owned services in order to meet economic assistance objectives. More generally, as was seen in the European cases, those institutions that privatized then followed a commercial strategy that deprived them of an existing means to provide financial services to rural areas and the poor, as well as a means to mobilize domestic savings. For emerging economies this would also deprive them of an important development resource as well. The expectations of the outcomes of privatization policies need to be re-examined by governments, as well as international development institutions.

5. In Europe and in some developing countries, government restrictions had led the posts to consider the establishment of a separate "postbank" in order to obtain a license to broaden the range of financial services offered, and to expand the investment and commercial lending possibilities of mobilized funds. However, the creation of the postbank often has come in tandem or was soon followed by its severance from ownership by the posts. In Scandinavia, this led to the loss of revenue by the posts from shared facilities, undermined the economic viability of the postal infrastructure network, and forced closures of many branch post offices on which postal savings and many other community services depended. In assessing the pros and cons of establishing a postbank or the consequences of privatizing it, consideration should be given to providing continuing incentives to the posts and the postbank to actively cooperate in the operations of postal financial services. Such incentives can include some form of ownership stake of the posts in the bank, or an annual franchise fee paid by the bank to the post based upon the total value of deposits plus fees on a per-transaction basis.

6. Most developed countries, even before the advent of the postbank concept, offered credit facilities to their clients, recognizing the important role consumer credit and home mortgage lending plays in building a savings institution's base of depositors. However eighty per cent of developing country postal savings systems surveyed offered no credit facilities, often the result of overly restrictive policies, which in some cases were based upon the historical legacies of the colonial period, or in other cases denying the posts a license on the rationale that it would unduly compete with private-sector financial institutions.

There are a number of ways, however, to provide these services beside postbank creation (as noted above). The posts in many countries have concluded agency agreements with independent financial institutions that would provide the financial products that the posts may not be permitted to provide under the financial regulatory regime or has little experience in managing. This approach allows, in particular, the marketing of credit and investment products through the postal system without the posts itself incurring the high risks associated with credit evaluation and debt collection, or the investment of funds in inherently risky markets. Alternatively, the postal savings system could enter into joint agreements with savings and policy-based development institutions to perform some of these functions with appropriate incentives to each party or by their outright acquisition by the posts.

7. The postal infrastructure has been the main vehicle for the mobilization of rural savings and the provision of financial services to low-income populations and women in many countries. In this regard, general savings promotion campaigns may be undertaken through the postal system. While postal management may see them simply as marketing, they also help to inculcate values of thrift and can have a broader development function. A related area requiring attention is the development not only of savings products suitable for rural and urban markets, but also for specially targeted groups within those markets in order to reach populations that are underserved.

Some institutions, such as a national savings organization, may address the need to create and promote savings products as part of a coherent national plan to mobilize savings. Other institutions, such as national savings banks, may provide a link between the collection of funds and their intermediation back into the community, such as providing mortgages for low-income housing, and the funding of development banks which can assess sustainable projects for agricultural, industrial and infrastructure development. Other strategies that can successfully be employed include the creation of alliances with microcredit organizations for which the posts can provide deposit-taking functions. Successful microcredit operations need a microsavings component such as postal savings in order to be self-sustaining.

8. Domestic development would also be assisted by placing a portion of postal savings resources with qualified microfinance institutions to encourage small business enterprises and small-scale agricultural credits (such a pilot programme is being undertaken in Morocco). This policy would have the two-fold effect of providing credit to the poor, often women, as well as giving encouragement to rural savers by returning investment funds to their communities through local microcredit institutions. An expected benefit for the posts would be greater use of postal financial services through the opening of small business accounts and remittance services.

9. An opportunity exists to adapt the postal payment systems to include savings facilities particularly in CIS and other transition economies, but also in those developing countries where such postal payment systems already exist and are extensive. By allowing direct deposit of payments into personal savings accounts, large amounts of financial resources that would otherwise move upon receipt into the cash economy can be mobilized instead in the financial system. In addition, savers would have a safe placement of funds that earns interest for them. From a managerial standpoint there are also enormous synergies achieved by joining the operations of postal savings and postal payments services using the same counter service windows and equipment.

It is crucial, however, that clients be able to easily withdraw from their savings accounts. A related idea, already in use in the usually crowded city post offices in China and the Republic of Korea, is the introduction of "cash cards" to help speed service through the posts' automatic cash withdrawal machines (ACMs). In a further application of this idea, some commercial banks have ATMs that are linked to the postal savings system. This can result in a higher retention rate of savings by minimizing early withdrawals.

10. For many developing countries in Asia and elsewhere, a significant amount of foreign exchange comes in the form of remittances from overseas workers. Yet, for the most part, only expensive or inadequate and unsafe systems of remittance are available. The availability of lower-cost remittance services would encourage more remittances from abroad and perhaps increase the total inflow. International postal giro remittances to postal savings accounts with direct deposit features are an established transfer mechanism in many developed countries. Steps should be taken to include more developing countries in Asia as well as in Africa in the international giro systems of Europe, Japan and the Republic of Korea. One comprehensive solution would be the enactment of an international treaty that provides for universal giro services through the posts, similar to the provisions for the universal exchange of mail between member countries of the Universal Postal Union.

In conclusion, postal savings and giro services have long played a vital economic and social role in many countries by providing financial services to those who have the least access to the banking sector. However, the vector of forces of financial sector development, market liberalization, domestic and foreign entry and acquisition, privatization and technological change has dramatically reshaped the financial sector in many countries. This has challenged the continued provision of public services, diminishing the opportunities to expand or in some cases even to continue, to deliver postal financial services to low-income populations, women and discriminated minorities, especially in rural areas. Yet, our review of experiences of Asian developing countries suggests many ways that developing countries can help themselves to mobilize domestic savings and provide domestic financial services through postal savings and remittances and thereby provide financial services to those most likely to be excluded.

Finally, this paper is the product of research and discussion in many countries in Asia whose experiences reflect the often significant differences between their economic, social and cultural develop- ment and the experiences of developed countries, primarily in Europe. These differences, among other things, underscore the particular value of an ongoing South-South colloquy on postal financial services and economic development. Such a colloquy would focus on the policies and practices to increase institutional efficiency and effectiveness of postal financial services in developing country environments so that they may build their capacity to mobilize savings to serve the people.

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