Post offices can serve people who can't access banks, but postal finance must be regulated so that it's effective and accountable

Post offices have played an important role delivering financial services. But developing efficient postal finance isn't easy.

Regulating postal finance is a unique challenge. Although it can have a powerful presence in an economy, postal finance can also be subject to inefficiencies and corruption. Good regulation is important to make sure that it is both effective and accountable.

For example, providing financial services to all at low prices is a worthy policy goal. But a national postal bank creates a natural monopoly. Because business is guaranteed, it's hard to disrupt and innovate. This could crowd out existing organizations.

A postal finance system should be governed with transparent oversight that pushes it to innovate. An example from Indonesia is Bank Tabungan Negara's relationship with Post Indonesia. The bank sells its products through post offices and has a profit-sharing arrangement. The two institutions are both vested in the success of the product.

When market failures prevent access to financial services, regulations should identify constraints and intervene. Regulations should guide operations, particularly in improving technology and innovating systems that can upgrade delivery.

Postal finance is different from traditional financial services such as banking, and countries must be prepared to link postal systems to existing financial networks. This means creating or joining a wide ATM network, issuing debit cards, and having convenient branches.

The Republic of Korea's post bank is a good model of cost-effective and efficient postal finance. Its quick adoption of technology means customers can access postal finance on the country's mobile network. In Indonesia, the government is experimenting with "branchless" banking, where customers access their accounts through handheld terminals distributed to post offices throughout the country.

Although a postal savings system can bring financial inclusion, it must be accompanied by education. In Japan, this knowledge is cultivated from an early age. In primary school, schoolchildren open a postal savings account and deposit a small amount every month for 6 years. More nuances of finance are added through middle and high school.

Developing such programs could be done with input from finance, education, and postal authorities, reinforced by reconfiguring the postal workforce. Economies that aspire to expand postal financial services must ensure that the basic service is of high quality before diversifying into a comprehensive portfolio.

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

In the case of remittances, providing migrants with a safe, efficient, and cheap channel to remit money can promote greater financial inclusion among this marginalized group. Postal operators could agree to harmonize remittance fees or share best practices in promoting remittances through post offices.

Postal networks have much to offer for financial inclusion. Banks, the traditional source of financial services, struggle in the global environment. This calls for the adoption of innovative, adequate, and low-cost service delivery models such as the postal saving system.

Access to even small amounts of postal financial services can transform the lives of the poor, not only by raising incomes but also by increasing resilience to economic shocks. Postal finance needs to be further developed as a key tool for financial inclusion.

This has been an Asian Development Bank Institute policy brief by Aladdin Rillo, senior economist, and Jeffrey Miyamoto, an associate at the time the brief was published.