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Namibia

A Post Office Leading the Way for Financial Inclusion in Africa

Nomsa Kachingwe
Alexandre Berthaud

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Acronyms and Abbreviations

BON	Bank of Namibia
DBN	Development Bank of Namibia
NAMFISA	Namibia Financial Institutions Supervisory Authority
NFSH	Nam-mic Financial Services Holdings
NHE	National Housing Enterprise
NHIES	National Household and Income Expenditure Survey
NPOSB	Namibia Post Office Savings Bank
POS	Point Of Sale
SACCO	Savings and Credit Cooperative
SBCGT	Small Business Credit Guarantee Scheme
SME	Small and Medium Enterprises
UEPS	Universal Electronic Payment Systems

I. Introduction

Namibia has a well-developed and fairly sophisticated financial system, with a resilient banking sector and a large variety of non-bank financial institutions. However, like several countries in Sub-Saharan Africa, financial inclusion remains a considerable challenge for policymakers and financial service providers in Namibia.

In recent years, the Namibia Post Office Savings Bank (NPOSB) has become a strong force in the financial landscape, as it has been at the forefront of providing innovative and affordable financial services tailored for the unbanked and under-banked population in Namibia. In particular, the NPOSB introduced a Smart Card in 2006, which uses biometric identification technology, allowing savings account holders to conduct cash-less transactions across the postal network. So far, over 500,000 Namibians, out of a population of 2.3 million use the Smart Card to access financial services through the Post.

The Namibian case illustrates that a Post can embrace technology and make use of its wide branch network to deliver affordable financial services to the poor, while at the same maintain sound financial performance. This case study is one of a series of studies being undertaken by the Universal Postal Union (UPU), to showcase the opportunities, challenges, and best practices for Posts in financial inclusion.

II. Financial Inclusion in Namibia

Despite recent improvements in financial inclusion, many low-income households, as well as small and medium enterprises (SMEs), have limited access to financial services. According to the FinScope Consumer Survey conducted in 2011, the banked population increased from 45% in 2007 to 62% in 2011. However, for 49% of the banked population, it still takes more than one hour to reach a bank.¹ Initiatives to accelerate access to finance, especially for rural communities and SMEs, are currently being implemented by the Namibian Government and other stakeholders, under the Namibia Financial Sector Strategy 2011 - 2021.

II.1 Socio-Economic Context

Namibia is a large and sparsely populated country, with a population of 2.3 million people. Over 60% of the population live in rural areas. The country is rich in natural resources, including a wide variety of metals and minerals. According to the World Bank, mining, agriculture, and food processing have been key drivers of the economy, and tourism and construction activities have expanded rapidly in recent years.² Since 1991, Namibia has achieved steady Gross Domestic Product (GDP) growth, which has contributed to a consistently high level of per capita income.

Despite steady economic growth, Namibia is plagued by extreme levels of social and income inequality. There are large income disparities between rural and urban areas, and the vast majority of the population relies on subsistence agriculture, social grants and informal sector employment.³ In 2009, 28.7% of the population were living below the national poverty line, and unemployment stood at 37.6% in 2008.⁴

Figure 1. Statistical Overview of Namibia

Namibia			
General Indicators		Source	Year
Population (in millions)	2.3	World Development Indicators	2012
GDP per capita (current, US\$)	5,786	World Development Indicators	2012
Adult population, age 15 - 64 (% of total population)	59.9	World Development Indicators	2012
Population density (people per sq. km of land area)	2.69	World Development Indicators	2011
Rural population (% of total)	61.0	World Development Indicators	2012
Mobile cellular subscriptions (per 100 people)	103.0	World Development Indicators	2012
Internet users, per 100 people	12.9	World Development Indicators	2012
Unbanked adults (% of adult population)	38%	FinScope Consumer Survey Namibia	2011

¹ *FinScope Consumer Survey Namibia*. FinMark Trust (2011)

² *Namibia Country Brief*. World Bank (2013)

³ *Namibia Household Income and Expenditure Survey (NHIES)*, 2009 – 2010. Namibia Statistics Agency (2013)

⁴ *World Bank Development Indicators*. World Bank (2013)

II.2 Characteristics of the Financial Services Market in Namibia

The financial services market in Namibia is dominated by foreign-owned, and particularly South African-owned, financial institutions.⁵ The financial market is comprised of 9 banking institutions, and over 3,800 registered non-bank financial institutions, including pension funds, insurance companies, unit trusts, asset managers and micro-lending institutions. The banking sector consists of five private commercial banks: First National Bank of Namibia, Standard Bank Namibia, Nedbank Namibia, Bank Windhoek., and the recently launched e-Bank. One microfinance bank, FIDES Bank Namibia started operations in 2010, with a focus on providing microfinance to rural populations in the Northern region, as well as SME financing for semi-formal and formal businesses. It currently has over 5,000 micro-borrowers and 200 SME borrowers.⁶ Some of the private commercial banks also provide micro-loans and SME financing, as part of the Small Business Credit Guarantee Trust (SBCGT) run by the Namibian Government. In addition to the private banking institutions, Namibia has four state-owned specialised financial service providers: Namibia Post Office Savings Bank (NPOSB), Agricultural Bank of Namibia (AgriBank), National Housing Enterprise (NHE), and Development Bank of Namibia (DBN).⁷ A new state-owned SME Bank was established in 2012.

Commercial banks have a limited presence in rural areas, despite recent efforts to expand their branch networks. All banks provide a similar range of products and services, including savings and current accounts, loans, mobile banking and international banking services. There are few banking products that are well-suited to the low-income segment of the population, although Bank of Namibia recently issued a directive for commercial banks to introduce basic bank accounts (BBA).⁸

While there is a broad range of non-bank financial institutions in Namibia, few provide services oriented towards the low-income market. Micro-lending institutions (347 micro-lenders reported in 2010) have been reported to focus on salaried individuals, rather than on the financially excluded population, such as small-scale entrepreneurs and low-income individuals.⁹ The same can be said of the insurance industry. Indeed, at the end of 2010, there were 18 long-term insurers, 14 short-term insurers and 167 active pension funds. Despite the large number of insurance companies and pension funds, less than 10% of the population have access to insurance services.

Informal institutions such as savings and credit cooperatives (SACCOs), as well as the state-owned specialised banks, have attempted to fill the access to finance gap. Of all these institutions, NPOSB has arguably made the most progress in broadening access to financial services for poor and rural households. The Namibia Post Office (NamPost) has an extensive branch network of 136 post offices and sub-agencies, and 650 service points,¹⁰ compared to a combined total of 100 branches for commercial banks. NPOSB services are provided in the 136 post offices and sub-agencies. These services include traditional savings accounts, fixed term deposits and other investment accounts, as well as funeral insurance for savings account-holders. According to the IMF, "over 40% of households have savings accounts with the [NPOSB] and its charges are substantially lower than commercial banks."¹¹ This indicates that the NPOSB has become an important financial service provider in Namibia.

Aside from traditional financial institutions, Namibia is yet to advance on the mobile money front. There are only two licensed mobile money providers: MobiPay, which was launched in 2010 and provides mobile payment services; and Nam-mic Financial Services Holdings (NFSH) which launched an e-Wallet, the Nam-mic CellCard, in 2012. Given that almost 100% of the population has a mobile phone, there is enormous potential for mobile money to play a greater role in the financial system in Namibia.

II.3 Legal and Regulatory Framework for Financial and Postal Services

Namibia inherited a strong legal and regulatory framework for financial services, following its independence from South Africa in 1990. The Postal regulations, in particular, promote the provision of financial services to rural areas through the postal network. Nevertheless, there have been some concerns about the adequacy of the regulatory environment for financial inclusion. In this regard, recent amendments to key pieces of legislation, as well as new policy initiatives, have been put in place to encourage financial institutions to serve poor and low income communities in Namibia. These are discussed in what follows.

II.3.1 Legal and regulatory framework for Financial Services

Banking institutions are governed by the Banking Institutions Act of 1998, as amended in 2010. According to the Bank of Namibia, the recent amendments to the Act were made, in part, to foster the development of microfinance banking

⁵ *Namibia Financial Sector Strategy 2011 -2021*. Republic of Namibia (2012)

⁶ FIDES Bank website: <http://www.fidesgroup.org>

⁷ *FinScope Consumer Survey Namibia*. FinMark Trust (2011)

⁸ *Ibid.*

⁹ *Namibia Financial Sector Strategy 2011 -2021*. Republic of Namibia (2012)

¹⁰ Reyneke, B (2011). *Namibia Post Limited Presentation*, prepared for UPU Forum 2011

¹¹ *Namibia: Financial System Stability Assessment*. International Monetary Fund (IMF) (2007)

institutions that would focus on the poor and unbanked.¹² The new regulatory framework will place microfinance banking institutions under the supervisory purview of the Bank of Namibia, and it will enable them to source funds from the public, as well as provide credit to defined target groups.¹³

Non-bank financial institutions are regulated by several pieces of legislation, including the Insurance Act, Pension Funds Act, and the Co-operative Societies Act, among others. All registered non-bank financial institutions are supervised by the Namibia Financial Institutions Supervisory Authority (NAMFISA). Concerns have been raised about NAMFISA's ability to ensure that the sub-sector is well-supervised, especially given the multiple laws applying to non-bank financial institutions.¹⁴

As yet, Namibia has no specific regulations governing agent-banking relationships. In 2012, the Bank of Namibia issued Guidelines for Electronic Money (e-Money), which apply to all entities, and their agents, that intend on issuing e-Money in Namibia.¹⁵ The Bank of Namibia reported that the opening of e-Money to a large number of players, including banks, non-bank financial institutions, and mobile network operators, is expected to promote competition and innovation, as well as to increase the likelihood of mobile financial services reaching the un-banked population.

On the other hand, the e-Money guidelines stipulate that non-bank issuers of e-money are prohibited from providing other financial services. Specifically, the guidelines state that "any party (other than a banking institution) that wishes to offer e-Money services in addition to other services must establish a separate entity whose activities shall be limited to the issuance of e-Money and the provision of related services."¹⁶ This requirement may pose some challenges for existing non-bank financial institutions that would be interested in entering the e-Money market, as may be the case for the NPOSB.

II.3.2 Legal and regulatory framework for the Post

The Post and Telecommunications Companies Establishment Act of 1992 established the Namibia Post Office (NamPost) as a commercial entity, to be controlled by the Namibian Government through a separate holding company, Namibia Post and Telecom Holdings (Ltd). The Act also provided NamPost with control over the Post Office Savings Bank. Postal savings are, however, still guaranteed by the Government.¹⁷

Separate regulations were introduced in 1996 to govern the operations of the Savings Bank. The Post Office Savings Bank regulations require that NPOSB conducts its business with the objective of "encouraging and promoting savings by inhabitants of Namibia; and, providing efficient banking services to meet the requirements of the rural and urban population of Namibia."¹⁸ The regulations enable NPOSB to accept deposits, and to offer other banking and financial services as the Board sees fit, although the Post and Telecommunications Act of 1992 does not empower the NPOSB to provide credit services¹⁹. In terms of the Banking Institutions Act of 1998, the NPOSB is exempted from the law regulating banks and other deposit-taking institutions. However, in accordance with the Act, this exemption was lifted in 2011 through a *Government Gazette* issued by the Minister of Finance, and the NPOSB has since been under the regulatory and supervisory ambit of the Bank of Namibia. The Bank of Namibia is currently preparing specific regulations to account for the fact the NPOSB is still a department within the Post, as is also restricted from extending credit.²⁰

In any case, The restriction on lending has not inhibited the Post from providing micro-credit services, however. In 2010, NamPost established a wholly-owned subsidiary, NamPost Financial Brokers (Pty) Ltd trading as "Post Fin," in order to provide microfinance services across the postal network.²¹ In contrast to the NPOSB, Post Fin is regulated and supervised by NAMFISA. Although the regulatory environment may be enabling for postal financial services, there appears to be a heavy regulatory burden on NamPost. Not only did the Post have to create a separate entity to expand its financial services, but it now also bears a higher cost of compliance with different regulatory and supervisory authorities.

¹² *Explanatory Notes on Policy Issues relating to the Proposed Amendments to the Banking Institutions Act of 1998, as Amended*. Bank of Namibia (2013)

¹³ *Ibid.*

¹⁴ *Namibia: Financial System Stability Assessment*. International Monetary Fund (IMF) (2007)

¹⁵ *Determination on Issuing of Electronic Money*. Bank of Namibia (2012)

¹⁶ *Determination under the Payment System Management Act, 2003, Part 3, section 14.1*. Bank of Namibia (2012)

¹⁷ *The Role of Postal Networks in Expanding Access to Financial Services Volume II*. World Bank (2006)

¹⁸ *Post Office Savings Bank Regulations 1996, Chapter 2, Section 2.1*. Republic of Namibia (1996)

¹⁹ *Ibid*, Section 2.2

²⁰ Mukete, M. (2011). "The Role of Namibia Post Savings Bank in Financial Inclusion," *Policy Memoranda 2011*, Fletcher School Leadership Program for Financial Inclusion.

²¹ Namibia Post Limited website: <http://www.nampost.com.na>

III. The Business Model: A Modern Post Office Savings Bank

Post Office Savings Banks have been established for several decades in the developing world, particularly in Africa, South Asia and the Middle East, as an instrument for governments to raise small deposits from rural and urban areas. Through postal savings, low-income populations have had access to safe places to deposit their money, while governments have had access to long-term, low-cost financing for investment.²² In the case of Namibia, the NPOSB has become an integral, and successful, component of NamPost. The NPOSB was created as a department within the South West African government, prior to Namibia's independence from South Africa. In 1992, after the incorporation of NamPost, the NPOSB was transformed into a strategic business unit within the Post Office.

Since 1992, there have been significant changes to the structure and the financial service offering of the Post. In particular, the Post Office established Treasury services in 2003; and in 2006 the NPOSB introduced its innovative Smart Card, based on a biometric identification system. In 2010, NamPost entered the micro-lending business through its subsidiary, Post Fin. The Post Office therefore provides a wide range of modern financial services. It has employed a unique business model, which combines traditional postal financial services -such as domestic money transfers and bill payments – with electronic postal savings and micro-lending services targeted at the poor and rural population.

III.1 Description of the Model

Namibia Post provides financial services through three main business units: Postal Services, Post Office Savings Bank, and the independent lending unit, Post Fin. In addition to providing core mail services, the Postal Services unit acts as an agent for a number of financial and non-financial companies. Agency services include bill payments, such as airtime purchases, TV licence and municipal bill payments, and other utility payments. The Postal Services unit also acts as an agent for the National Housing Enterprise (NHE), by collecting home loan payments from existing NHE clients. A recent partnership with Mobi-Pay will see the Post provide cash-in/cash-out services for the mobile payments service provider. The partnership is also expected to allow NamPost to provide its own financial services through mobile phones.²³



The Post Office Savings Bank, which includes the Treasury unit, provides a variety of savings and investment products. Currently, the NPOSB offers an affordable savings account, which also acts as transactional account for retail customers. As of October 2013, NPOSB had approximately 500,000 savings accounts, of which 400,000 were considered active.²⁴ The savings account now comes with a Smart Card, instead of the paper-based savings book, thus allowing customers to conduct cash-less transactions on their accounts (See Box 1). In 2007, the NPOSB entered into a partnership with Old Mutual, to provide savings account-holders with funeral insurance. The funeral cover, worth N\$4,000 (~ US\$400)²⁵, and which costs only N\$ 9.99 per month, is provided on the basis that savings account holders have and use the Smart Card at least once a month.²⁶

Treasury services were established as a separate business unit in 2003, although the Treasury unit now falls under the NPOSB. The unit is based in the Windhoek Post Office, and provides investment services for corporate clients, regional and local authorities and private businesses.²⁷ The unit also manages the funds deposited in the accounts provided by the NPOSB, namely savings accounts, term deposit accounts, and call accounts, among others. Investment management is conducted in-house, with some assistance from external consultants. The Treasury unit has experienced notable growth since its introduction in 2003, and this can largely be attributed to the strong relationship that NamPost has cultivated with its corporate clients. This shows that financial inclusion activities can be cross subsidized by engaging in other areas such as corporate financial services. However, this can only happen in a post with the sufficient capacity as is the case in Namibia.

Post Fin provides small personal loans in both urban and rural areas. The lending unit is operated by an independent management team, although NamPost provides capital for lending. In 2012, the Development Bank of Namibia (DBN), NamPost, and Post Fin entered into an agreement in which the DBN would advance a line of credit worth N\$30 million (~ US\$ 3 million) to Post Fin, to enable it to extend small loans to micro-entrepreneurs and individuals.

²² *Global Panorama on Postal Financial Inclusion*. Universal Postal Union (2013)

²³ Namibia Post Limited website: <http://www.nampost.com.na>

²⁴ Bertie Reyneke, Namibia Post Limited, Interview conducted on 4 October, 2013

²⁵ Conversion to US Dollars calculated at rate of 10 N\$/US\$. The same rate is applied throughout the Report.

²⁶ Namibia Post Limited website: <http://www.nampost.com.na>

²⁷ *Annual Report, 2005*. Namibia Post Limited (2005)

Box 1: The Modernisation of the Post Office Savings Bank – The NamPost Smart Card

The NPOSB has come a long way. Although it is not a licenced financial service provider, it has been at the forefront of providing innovative, and affordable, financial products to low-income households in Namibia. In 2006, the NPOSB launched “Smart Switch Namibia”, a joint-venture between NamPost and Net 1 Universal Electronic Payment Systems (UEPS) Technologies. Smart Switch Namibia implemented and now operates a card-based switching system which makes use of biometric (fingerprint) identification technology – the first of its kind in Namibia. The system is tailored for the unbanked and under-banked population, providing an alternative payment system for people with little or no access to the formal financial system. The flagship product of the joint venture is the NamPost SmartCard.

The SmartCard is a chip-enabled card that provides cardholders with access to all products and services provided by the NPOSB, at even lower transaction costs. In particular, SmartCard holders are able to conduct money transfers, receive social grants, salaries and other payments into their accounts, as well as pay for products and services at post offices and other participating retailers. Unlike other bank cards, SmartCard holders do not require a PIN number to conduct transactions, as identification is verified by the fingerprint data. Moreover, the SmartCard can be used without online connectivity, allowing customers to conduct transactions offline. The SmartCard system can therefore be used in post offices and outlets in rural and remote areas that have limited internet connectivity.

As the SmartCard operates in a closed-loop system, i.e. it cannot be used on POS devices operated by other banks and financial institutions, a substantial investment has been made in expanding the network of POS devices. Currently, the SmartCard can be used in all 136 post offices and sub-agencies, as well as 196 retail outlets that have been provided with POS devices. The SmartCard is popular among both high and low income customers, and the POSB estimates that close to 410,000 Namibians have and use the SmartCard product. In 2007, the NPOSB launched a “Tourism” Smart Card, which is a similar service provided to tourists visiting the country.

Moving forward, the NPOSB is looking to make significant improvements to the SmartCard product, as well as to increase the number of POS devices, and introduce new products and services for its clients.

Source: Namibia Post Limited

III.2 Rationale for the Model

The business model employed by NamPost is influenced in part by the Post and Telecommunications Act of 1992. The Act mandates the Postal operator to provide financial services, through the NPOSB, to all Namibians. By using the postal network to provide financial services, the Government has been able to reach communities that are largely excluded from the formal financial system. Additionally, by retaining the NPOSB as a business unit within the Post Office, NamPost is able to diversify its revenues, and ensure financial sustainability.

On the other hand, the rapid growth of the NPOSB, compared to the other business units within NamPost, may pose some challenges to the governance and sustainability of the current business model for postal financial services. As there are plans for further expansion of the products and services offered by the NPOSB, discussions are currently under way on the next steps for the NPOSB and NamPost.²⁸

III.3 Analysis of the Business Model: Key Issues and Success Factors

This section analyses the business model employed by NamPost, in terms of the key success factors highlighted in the UPU Global Panorama on Postal Financial Inclusion. A summary of the analysis is provided in Fig 2 below, which shows the strengths, weaknesses, opportunities and threats (SWOT) of the NPOSB.

²⁸ Bertie Reyneke, Namibia Post Limited, Interview conducted on 4 October, 2013

Figure 2. SWOT Analysis for the NPOSB

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> ▪ Extensive branch network and large rural footprint ▪ Strong management and staff team ▪ Good financial performance ▪ Innovative Smart Card product for low-income segment of market ▪ Strong government support for financial services through NamPost 	<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> ▪ Unclear regulatory and supervisory oversight from Bank of Namibia ▪ Closed loop system for Smart Card limits use across national payments system ▪ Limited use of overall network of service points for POSB services ▪ Offline post offices raise inefficiency and cash management costs
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> ▪ Use of wide network for distribution of other financial products and services, such as insurance ▪ Leverage the large number of clients and wide network to become a key competitor in mobile financial services 	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> ▪ Competition from banks entering the low-income and rural segment of market ▪ Rapid growth of NPOSB services may weaken governance of NamPost business model

a. The Network

A postal network can be successful in enhancing access to financial services if it combines (i) capillarity across urban and rural areas, (ii) connectivity among its contact points, and (iii) full use of the network.²⁹

Capillarity can be measured, in general, by the number of inhabitants served by a permanent post office. In the Namibian case, this number stood at 17, 835 inhabitants per permanent post office in 2011, compared to an average of 68, 133 inhabitants per permanent post office for Sub-Saharan Africa in the same year.³⁰ Although this number is still high by international standards, the NPOSB has made progress in building a large network of branches in both rural and urban areas.

In terms of connectivity, 80% of the 136 branches have online connectivity, and many of the offices that are not online are in rural areas. Offline offices conduct back office transactions manually on a daily or weekly basis, which could present a loss of efficiency within the network. Recognising this issue, the NPOSB is currently implementing measures to connect all post offices to the online system.³¹

Finally, the NPOSB indicates that it has 650 service points country-wide, suggesting that its network may be under-utilised, as NPOSB services are only provided in the 136 post offices and 196 merchants with POS devices. In addition, the FinScope Survey reports that for 43% of adults in rural areas, it still takes more than one hour to reach a Post Office.³² There is therefore room for expanding postal financial services across the existing network of agents and postal outlets.

b. Staff

Staff can be a key asset or liability for Postal operators. For the NPOSB, they appear to be a very strong asset. The NPOSB unit has 40 employees that report directly to the General Manager, including three members of staff in the Treasury unit. However, savings bank products and services are provided by all counter staff in the post offices and sub-agencies. Counter staff are required to be computer literate, and training sessions are conducted at the Post Office

²⁹ *Global Panorama on Postal Financial Inclusion*. Universal Postal Union (2013)

³⁰ *Postal Statistics, 2011*. Universal Postal Union (2011)

³¹ Bertie Reyneke, Namibia Post Limited, Interview conducted on 4 October, 2013

³² *FinScope Consumer Survey Namibia*. FinMark Trust (2011)

Training Centre on a regular basis. On-the-job training is also provided to members of staff. Training sessions are reported to cover a wide range of issues, including leadership, customer service, and operational procedure.³³

An obstacle that Postal operators often face in providing financial services is resistance from staff, or lack of staff commitment to postal financial services. In the case of Namibia, it was indicated that some resistance was initially experienced, although deliberate efforts taken by the management team have ensured that employees are on board with the strategy for the NPOSB. Measures taken to build staff commitment to financial services include non-monetary incentive schemes, such as an annual sales competition for savings products, as well as constant visits by the management team to post offices and outlets across the network.³⁴

c. Financial Capacity

The level of profitability and liquidity within a Postal operator is important not only for financial services, but also for core mail services. For NamPost, there are no significant concerns regarding financial capacity, as the Postal operator has maintained positive net results. There have also been improvements in the profitability of individual post offices across the network.

In particular, total assets of NamPost exceeded N\$1 billion in 2006, driven mainly by growth in the deposit book of the NPOSB.³⁵ And in 2013, the Post Office recorded profits of N\$120 million. Revenues from the NPOSB and Treasury Services continue to make a significant contribution to the profitability of the Post, even as the core mail business remains strong. Currently, the NPOSB contributes roughly 35 – 40% of the revenues of NamPost.

In terms of liquidity, the NPOSB is also performing relatively well. The minimum liquidity ratio required by the Bank of Namibia is currently 20%, although the POSB is currently maintaining a ratio of 70%.³⁶ Post offices within the network are responsible for ensuring they have enough cash to meet the needs of their communities, and cash is often transported from urban to rural post offices. One challenge associated with liquidity, however, is the high cost of cash transportation, which includes security and insurance costs.

d. Trust

Trust is another important asset for Postal operators. Whether or not the public has confidence in the services provided by the Post, can determine the success of postal financial services. According to the World Economic Forum, the postal services efficiency indicator, which measures the extent to which consumers trust the postal system to deliver a package worth US\$100, for Namibia stood at 4.7, within a scale of 0 – 7 (best).³⁷ Although this indicator does not represent the level of trust in postal financial services particularly, it does suggest that confidence in the operations and services provided by the Post is fairly high. Furthermore, NamPost has a substantial Corporate Social Investment (CSI) portfolio, including donations to charitable causes, which helps in building community awareness and confidence in the Post.

e. Automation and Process Integration

In terms of Information Technology (IT) infrastructure, the NPOSB has invested in efficient internal management systems that support both postal and financial services. The UEPS system developed for NPOSB services, in partnership with NET 1 technologies, is an innovative IT system that supports the Smart Card product. In addition, a new Banking and Treasury System, and an Electronic Performance Management solution were introduced in 2010, in order to improve the efficiency of work processes and customer service.³⁸ All front and back office processes in the post offices with online connectivity are automated. However, for the post offices that are not connected to an electronic network, there may be some efficiency losses associated with manual back office transactions.

f. Willingness to foster financial inclusion

The NPOSB has received considerable support from both the Government and the Central Bank. For example, the Government, through the DBN, provided funding for the Smart Switch venture that developed the Smart Card product; and further funding was provided by the DBN for micro-lending through Post Fin. These investments indicate a strong commitment to financial inclusion on the part of the Government of Namibia and to the use of the postal sector as a tool to deepen financial inclusion.

Although the NPOSB is not regulated by the Bank of Namibia, the Central Bank does provide some oversight into the operations of the Savings Bank. According to the Namibia Financial Sector Strategy 2011-2021, the Bank of Namibia is planning to review the mandate of the NPOSB, in order to enhance its contribution to financial inclusion. There is therefore a strong willingness on the part of the authorities in Namibia to ensure that the postal network is effective in providing financial services to the unbanked.

g. Governance between the Post and Postal Financial Services

³³ *Annual Report, 2012*. Namibia Post Limited (2012)

³⁴ Bertie Reyneke, Namibia Post Limited, Interview conducted on 4 October, 2013

³⁵ *Annual Report, 2006*. Namibia Post Limited (2006)

³⁶ Bertie Reyneke, Namibia Post Limited, Interview conducted on 4 October, 2013

³⁷ *Country/Economic Profiles: Namibia, Global Enabling Report 2012*. World Economic Forum (2012)

³⁸ *Annual Report, 2010*. Namibia Post Limited (2010)

The most common structure among countries is for postal financial services to be offered by a department or unit within the Post.³⁹ Although in recent years, the trend in the Postal community has been to spin-off postal financial services into independent entities from the Post, the POSB has been able to modernise without becoming a separate institution.

Although it operates as an independent unit internally, the POSB unit is part of the overall business of NamPost. This governance structure appears to work well for NamPost, as the POSB is able to diversify the revenue sources of the Post, especially as individual mail services have declined; and the cost and expenditure needs of the POSB can be covered from the Posts overall budget.

h. Legal and Regulatory Framework

As discussed in Section II.3.2, the legal and regulatory framework for the Post is particularly supportive of postal financial services. One important issue, however, is the regulatory oversight of NPOSB services by the Bank of Namibia. Although the Bank provides some oversight, the growth of banking and investment services provided by the Savings Bank raises some concerns about the adequacy of supervision of these activities by the regulatory authorities.

i. Marketing

Marketing of postal financial services is another major challenge for Posts, especially as the budget does not always allow for large advertising expenditures. NamPost has in recent years invested in an aggressive marketing campaign in order to improve the branding and visibility of the Post Office in general.⁴⁰ Direct marketing strategies for the Treasury and Savings Bank units have resulted in a growing investment and deposit book, and have enabled both units to make significant contribution to the revenue growth of the Post.⁴¹

In addition to marketing campaigns, NamPost also conducts regular customer satisfaction surveys to understand whether customer needs are being met. This is something quite unique in the region, and worth highlighting since it shows a customer-centric approach is being adopted. In 2012, NamPost reported that customer satisfaction had risen from 81% in 2011 to 84% in 2012. The client-centric attitude taken by NamPost has contributed to the increased awareness of the Post as a financial services provider, and is a key factor behind the success of the POSB.

j. Flexibility

Although there is potential for NPOSB to roll out services across its network of 650 service points, the fact that Smart Card clients are able to access financial services via the POS terminal network of 130 Post offices and 196 retail agents is a step in the right direction. However, given that the POS devices operate in a closed loop network, Smart Card clients are limited in the use of their cards to NPOSB terminals and thus will mostly use the Card to withdraw cash, rather than conduct other financial services. To respond to these limitations, NamPost is in discussions with the Bank of Namibia in order to explore the possibility of joining the national payment system for retail payments in particular.⁴²

k. Development Support

Another important factor behind the success of the NPOSB was the long-term engagement between the Post and the German Savings Bank Foundation (Sparkassenstiftung für internationale Kooperation). Between 1994 and 2006, one international expert and ten short-term experts assisted the NPOSB in attracting savings and providing other financial services to the lower and middle-income population in Namibia.⁴³ In particular, the German Savings Bank Foundation provided support in transforming the NPOSB from a sub-division within the finance department, to a separate operating profit centre within NamPost. The experts also assisted in the institutional strengthening of NPOSB, the introduction of new products, the implementation of a new information and management systems, as well as leadership and management training.

III.4 Results Achieved

Among the Postal operators in Southern Africa, Namibia Post stands out as one of the most successful Posts in financial inclusion. Key results include:

- Considerable growth in the customer-base, from 180,000 customers in 2006 to more than 400,000 customers by the end of 2012 out of a total population of 2.3 million.⁴⁴
- Increase in the network of post offices and sub-agencies, by 42% since 2007.⁴⁵

³⁹ *Global Panorama on Postal Financial Inclusion*. Universal Postal Union (2013)

⁴⁰ *Annual Report, 2012*. Namibia Post Limited (2012)

⁴¹ *Ibid.*

⁴² Mukete, M. (2011). "The Role of Namibia Post Savings Bank in Financial Inclusion," *Policy Memoranda 2011*, Fletcher School Leadership Program for Financial Inclusion.

⁴³ *Restructuring of Namibia Post Office Savings Bank Project*. German Savings Bank Foundation (Sparkassenstiftung für internationale Kooperation): www.sparkassenstiftung.de

⁴⁴ *Annual Report, 2012*. Namibia Post Limited (2012)

⁴⁵ *FinScope Consumer Survey Namibia*. FinMark Trust (2011)

- Improvement in financial performance, as the POSB transformed from a loss-making unit to a profit-driving unit of the Post.
- Introduction of Smart Card product, with successful uptake – 50,000 new Smart card savings accounts were opened in the year the product was introduced, and the POSB continues to open nearly 4,000 accounts per month.
- Increased public awareness of the Post as a financial services provider; the NPOSB has been recognised by the DBN and the FinMark Trust as a key player in financial inclusion.
- Enhanced internal controls and working processes, as a result of substantial investment in ICT infrastructure and management systems.

According to the CEO of NamPost, Festus Hangula, a key achievement of the NPOSB has been the linking of electronic payment capabilities to the ability to clearly identify people.⁴⁶ “So, for example for the government pension fund, we have succeeded in eliminating paying pensions to people who no longer exist!”⁴⁷ While it is difficult to measure the exact contribution of NamPost to financial inclusion in Namibia, “[the FinScope 2012 survey] discovered that since we have introduced the SmartCard in 2006, there has been a dramatic increase in financial inclusion, primarily in savings and transactions,” Hangula further noted.⁴⁸

III.5 Challenges

Although the NPOSB has made significant achievements in terms of financial inclusion in Namibia, there are a number of challenges facing the Post, as it continues to expand its financial services and products. These include competition from the banking sector, regulatory uncertainty, and growth challenges.

(i) Competition from the Banking Sector

While commercial banks have tended to focus their business on large corporates and high-income individuals in urban areas, recent efforts by the Government and other authorities to improve access to finance for the unbanked population is pushing banks into the low-income and rural segment of the market. For instance, DBN also channels credit for SME lending through private commercial banks, and several banks have increased their branch and agency network, as well as set up specialised branches for SME services.⁴⁹ Since private commercial banks have the advantage of sourcing additional funds at low cost, spending heavily on marketing and advertising, and also lending at low interest rates, there is pressure on the NPOSB to maintain its comparative advantage in the unbanked market. The Post Office will need to adapt to the changing market and provide products and services that continue to meet the needs of its clients in rural and urban areas, for instance, mobile accessible products.

(ii) Regulatory Uncertainty

The second challenge facing NamPost is the complicated nature of the laws and regulations that apply particularly to its financial services. The Post Office, in its current form, is subject to regulation under the Post and Telecommunications Act, as well as under NAMFISA and the Bank of Namibia, to some extent. This suggests that there may be an unnecessary regulatory burden placed on the operations of the Post. The cost of compliance with the multiple regulations may rise as the POSB introduces additional banking products and services.

Similarly, as the NPOSB grows greater regulatory oversight will be needed to ensure stability and good corporate governance within the Post Office.⁵⁰ Under the current organisational structure of NamPost, and with the current regulatory framework governing postal financial services, sufficient oversight of postal financial services may be limited, as the obscurity of business lines within the Post may limit adequate supervision of the Savings Bank.⁵¹

The organisational structure of the Post Office may need to be revised in order to ensure adequate supervision. There are indications that the Bank of Namibia may provide the NPOSB with a full banking license, as this will ensure optimal regulation and supervision of the NPOSB. However, becoming compliant with banking regulation is likely to be an expensive process for the Post, especially given that NamPost has already created a separate lending arm to overcome regulatory obstacles.

(iii) Growth and Governance Challenges

Finally, the growth of the NPOSB may pose challenges to the governance of the Post Office, as well as to the management of staff and of internal processes and controls. NamPost already has over 700 employees, spread out over a wide network of post offices and sub-agencies. Ensuring that staff is committed to providing financial services effectively,

⁴⁶ *Postal Technology International*, January 2014 Issue

⁴⁷ Festus Hangula, CEO of Nampost, quoted in *Postal Technology International*, p. 34, January 2014 Issue

⁴⁸ *Ibid.*

⁴⁹ *Namibia Financial Sector Strategy 2011 -2021*. Republic of Namibia (2012)

⁵⁰ Mukete, M. (2011). “The Role of Namibia Post Savings Bank in Financial Inclusion,” *Policy Memoranda 2011*, Fletcher School Leadership Program for Financial Inclusion.

⁵¹ Mukete, M. (2011). “The Role of Namibia Post Savings Bank in Financial Inclusion,” *Policy Memoranda 2011*, Fletcher School Leadership Program for Financial Inclusion.

and that internal processes are streamlined and transparent, particularly in offline offices, may become more challenging as the NPOSB expands. In particular from an internal governance perspective, NamPost will need to watch closely to avoid NPOSB drifting apart from NamPost. International experiences have shown that this can quickly lead to an independent Postbank completely separated from its parent Postal operator, in terms of network and governance and leading to serious sustainability issues both for the Post and the postal bank. In Botswana, next door, a tender has been launched to create a holding company in the hope that this will trigger the reunification of the Post and the Postbank.

IV. Lessons Learned for the Postal Community

Despite NamPost's aforementioned challenges, there are a number of lessons learned that have contributed to the growth and success of postal financial services in Namibia. These lessons for the Postal community include the following⁵²:

(i) Commit to raising public awareness of the Post as a financial services provider

An important factor behind the success of postal financial services for NamPost is public awareness. The NPOSB has had to be creative about marketing its products and services to the public. It has also invested a considerable amount of resources in building customer relationships with both corporate and individual clients. This has helped to raise the visibility of the Post.

(ii) Invest in a reliable and customer-driven internal system

Additionally, a good and reliable system is necessary to make sure that customer needs are met effectively and in a timely manner. The system also needs to reduce operational inefficiencies within the postal network, and this will in turn reduce the costs associated with providing financial services.

(iii) Build a good and dedicated team within the Post

Finally, without a team that is dedicated to financial inclusion, postal financial services are unlikely to be effective in reaching the unbanked population. Building a good team requires constant interaction between management and staff members across the postal network, and especially in rural areas. There is need to ensure continuous training and internal support to staff providing POSB products and services. This has helped improve the front- and back-office procedures at NamPost, as well as raise the commitment of staff to financial inclusion.

V. Conclusion and Recommendations

Overall, there are two policy objectives necessary for postal financial inclusion to become a reality: the impact on financial inclusion on the one hand, and the sustainability of the Postal operator on the other.⁵³ So far, the Namibian case shows that it is possible to achieve both sustainability of the Post, and a measurable impact on financial inclusion. Of all the financial institutions in Namibia, the NPOSB has made the most progress in broadening access to financial services for poor and rural households. The key factors behind the success of the NPOSB business model include: a wide branch network; a good management and staff team; innovative and customer-driven products and services; and, strong Government support for postal financial inclusion, among other factors.

The NPOSB is not without challenges, however. The Post is beginning to face competition from banks in its target market, there is uncertainty regarding the regulation of postal financial services, and the rapid growth of the POSB may pose a threat to the current business model and organisational structure of the Post. In this context, we make the following recommendations:

- Expand basic banking services onto network of 650 service points, on a gradual basis, as this will enable financial services to reach individuals and households in more remote and rural areas.
- Continue discussions with regulatory and other authorities to obtain clarity regarding the legal framework for postal financial services, and the future mandate of the NPOSB.
- Continue to explore the possibility of joining the National Payments System, to improve accessibility of financial services for Smart Card clients, and to provide a better foundation for introduction of new electronic and mobile financial services.
- Assess the possibility to link the NPOSB accounts to a multi-channel platform which will allow for accounts to be accessed on the internet in cities but especially on mobile, using mobile-banking capabilities which are common place in Sub-Saharan Africa these days.

In closing, the NPOSB can be commended as one of the most successful postal savings banks in Sub-Saharan Africa. The Namibian case shows that with extensive investment, effective marketing, some initial external expertise, and a team committed to serving the unbanked, the Post can make a significant contribution to financial inclusion. In the words of Festus Hangula, "[NamPost] really wants to make sure that the Post Office champions the financial inclusion objectives of

⁵² Bertie Reyneke, Namibia Post Limited, Interview conducted on 4 October, 2013.

⁵³ *Global Panorama on Postal Financial Inclusion*. Universal Postal Union (2013)

the government, [...] We are in most areas where others are not, and that means we can take services to those areas much more easily than anybody else.”⁵⁴

⁵⁴ Festus Hangula, CEO of Nampost, quoted in Postal Technology International, p. 34, January 2014 Issue