POTENTIAL POSTAL BUSINESS MODELS TO SERVE MSMEs

Companion document to the study "Posts as enablers of MSME payment digitalization"

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List of abbreviations

AML	Anti-money laundering
API	Application programming interface
B2B	Business to business
BC	Banking correspondent
CFT	Combating the financing of terrorism
CICO	Cash-in and cash-out
DFS	Digital financial services
FGD	Focus group discussion
FITAF	Financial Inclusion Technical Assistance Facility
FMCG	Fast-moving consumer goods
FSP	Financial service provider
G2P	Government to person
GSMA	Global System for Mobile Communications Association
ICT	Information and communications technology
KPI	Key performance indicator
KYC	Know your customer
MFI	Microfinance institution
MMP	Mobile money provider
MMRI	Mobile Money Regulatory Index
MNO	Mobile network operator
MSMEs	Micro, small and medium enterprises
MVP	Minimum viable product
OECD	Organization for Economic Cooperation and Development
P2G	Person to government
PCIDSS	Payment Card Industry Data Security Standard
POD	Payment on delivery
POS	Point of sale
PSP	Payment service provider
QIB	Qatar Islamic Bank
SaaS	Software as a service
TAT	Turnaround time
ToT	Training of trainers
UPI	Unified Payments Interface
USSD	Unstructured supplementary service data

Glossary

Agent managers	Individuals responsible for supervising the agents carrying out transactions
Card skimming	Illegal practice used by identity thieves to capture credit card data
Cash-in	Depositing money at POS
Cash-out	Withdrawing money at POS
Digital payment acceptance	Receipt of payments made by digital means or online, with no physical exchange of money involved
Equity financing	Involves selling a stake in your business in return for a cash investment
Equity investing	Equity is used as capital raised by a company, which is then used to purchase assets, invest in projects and fund operations
Financial services agent	People who sell financial services and connect buyers and sellers in financial markets
Float income	The net interest margin earned on deposits by deploying them via treasury
Formal/ registered MSMEs	MSMEs that are registered with relevant government authorities and covered under the prevailing tax regime
Frontline agent	Individual responsible for managing direct interactions with customers and providing services
Informal MSMEs	MSMEs that are not registered with relevant government authorities and hence not covered under the prevailing tax regime

Peri-urban	Denotes an area immediately adjacent to a city or urban area
POS	Point of sale, which can be for any payment means (card, app, etc.) to access wallet
Real-time settlement	The merchant account/wallet gets funded/deducted in real time for all completed payments or CICO
Reconciliation and settlement	All completed transactions are tallied with each record as to whether the payment made through the channel has reached the recipient
Remittance	The action of sending money in payment or as a gift
Underwriting	The process through which an individual or institution takes on financial risk for a fee
Utility payments	Includes bill payments for mobile phones, electricity, water, etc.
White label	Products that are developed by a company but can be used by all as they are not owned or restricted by a sponsored partner
Working capital	The money required to run business operations

POSTAL BUSINESS MODELS TO SERVE MSMEs

Based on our assessment conducted as part of the study entitled "Posts as enablers of MSME payment digitalization", we have developed **three potential business models** for Posts to consider in their efforts to provide appropriate digital payment services to MSMEs.[1]

We designed these models based on our understanding of what might be realistic and achievable for Posts in emerging economies.

	MODEL 1	MODEL 2	MODEL 3
	Posts as financial services agents for products tailored to MSMEs	Posts as digital payment acceptors for MSMEs	Posts as facilitators for payments and delivery services to MSMEs and supply chain
TARGET CUSTOMER SEGMENT	Micro enterprises	Starting with existing customer base and then expanding to MSMEs	MSMEs Smallholder farmers Agribusinesses
RESPONSIBILITIES	Marketing	Marketing and selling	Payment exchanges within the supply chain
	Customer representation and acquisition	Payment acceptance on behalf of MSMEs	Collection/transportation of goods
	Delivery of a suite of financial products with payments as an entry point	Goods distribution	
	Responsibilities that apply to each role: **Product co-creation** **After-sales services** **Information services** **Payment settlement and reconciliation**		
KEY PARTNERS	Financial service providers (FSPs)	Acquirer banks or fintechs	Actors in the supply chain, such as distributors, aggregators, suppliers, producers, etc.
	Platform providers		
LEGAL REQUIREMENTS	Partner acquirer or FSP to bear primary legal responsibilities and to train the postal staff		

1 Throughout this study, we use the term micro, small and medium enterprises (MSMEs) in lieu of terms such as small and medium business, micro entrepreneurs and micro businesses.

	MODEL 1	MODEL 2	MODEL 3
	Posts as financial services agents for products tailored to MSMEs	Posts as digital payment acceptors for MSMEs	Posts as facilitators for payments and delivery services to MSMEs and supply chain
KEY AREAS FOR CAPACITY BUILDING	Executive-level understanding of payment digitalization for MSMEs – enough to make strategic decisions on how to enter the market successfully		
	Market research to understand MSME needs and opportunities for payment digitalization		
	Technical and operational skills for implementation		
POTENTIAL RESULTS	**OUTPUTS**		
	MSMEs register for, use and adopt digital payments and other financial products that directly respond to their business needs		
	MSMEs gain convenient access to information, hand-holding support for onboarding, and recourse in case of grievances/complaints through post office staff and branches		
	Scaling up the product through the postal network has the potential to reach businesses, especially MSMEs in urban, peri-urban and rural areas		
	OUTCOMES		
	Hybrid payment acceptance by the Posts will lead to greater uptake, with incentives for MSMEs to fully transition to digital payment acceptance		
	Increased income levels owing to growth and expansion of MSMEs		
	IMPACT		
	Improved financial resilience of MSMEs and households		
	Gainful employment opportunities created as MSMEs grow and thrive		
	Boost to the domestic economy		

A detailed description of each model is provided below followed by sections on the key challenges to MSME payment digitization and the associated risk considerations.

MODEL 1: FINANCIAL SERVICES AGENTS TO MSMEs

Background

FSP agents act as intermediaries and facilitate transactions between FSPs and end customers. They play a critical role in making financial services accessible and affordable for last-mile populations and allow for offline solutions where Internet connectivity is fragmented.

For this reason, national financial inclusion strategies tend to prioritize the development of low-cost channels, such as agent networks, to allow a diverse range of banking and non-banking financial institutions to distribute financial products as a means of universalizing access to formal financial services.

Some countries require banks and other regulated financial service entities to submit plans for the geographical outreach of their operations. Banks in Bangladesh, for example, require the appointment of three rural agents for each agent recruited for urban areas.

The structure of agent networks in different national contexts is a direct function of the prevailing regulations and different types of agents exist. Regulations determine the responsibilities that agents can execute on behalf of the FSP where, from a legal perspective, the latter remains largely responsible for the actions of its agents.

This makes it critical for the FSP or "principal" to engage with agents or agent networks that are reliable and can help them manage operational risks, such as those that make them liable for fraud, or issues related to customer protection. For example, a mobile money agent is usually a cash-in and cash-out (CICO) point for a mobile money provider (MMP), assisting with utility payments and domestic remittances, among other transactions, whereas a banking correspondent (BC) agent can accept deposits on behalf of a bank.

There are also agents that are able to disburse loans and accept loan payments for microfinance institutions (MFIs) and banks. Depending on domestic regulations, agents can also open accounts on behalf of the FSPs.

Defining the role of Posts

It is estimated that, globally, over 1.5 billion people access financial services through postal networks. Historically, Posts have acted as agents for FSPs in several contexts. For example, Vietnam Post acts as an agent for Lien Viet Bank, offering banking services through 63 of its branches across the country.

To understand the role of Posts as agents, it would be important to define the context in which such a role is placed. An agent is a third party that acts on behalf of a FSP under an agency agreement for the direct delivery of financial services to customers. Other terms for this role include "distributor", "correspondent" or "service point."

From the Posts' perspective, this study does not distinguish between non-bank and banking partners with which the Posts may enter into an agreement. The term "financial services agent" is for Posts that will act on behalf of banks and non-bank institutions to deliver financial services to MSMEs.

As agents for FSPs, the Post can provide the following financial services to MSMEs:

- **CICO services for wallets or bank accounts;**
- **Payments, such as bill payments and airtime top-ups;**
- **Domestic and international remittances;**
- **Savings, credit and insurance products.**

Rationale

For this specific model and the related business opportunities, we propose that Posts continue to act as agents to FSPs **with a specific focus on MSMEs.**

The MSME finance gap in developing countries is estimated to be approximately 5 trillion USD.[2] Current access to working capital and risk-mitigating financial products required by these enterprises is clearly not commensurate with the cash flows that they generate and sustain on a regular basis.

This is often perplexing for FSPs and regulators alike since the lack of a paper trail and a lack of requisite know your customer (KYC) documentation has often left this segment out of formal financial services.

By acting as agents for FSPs and directly serving MSMEs, Posts can bring the latter into the formal financial sector and help them build their digital footprint and establish an auditable financial transaction history. This can also increase MSMEs' trust and confidence in financial institutions and technology, thus preparing them for more complex financial products and services.

INDIA POST AS AGENTS

Since 2018, India Post has been providing financial services to 15 million customers on their doorsteps, through postal workers from 150,000 branches.

A total of 90% of the customers reached are in rural areas, with half of those being women. The Post provides CICO for savings accounts and facilitates money transfers, payments and insurance transactions using a hand-held micro-ATM that the postal workers use to provide doorstep services.

During the COVID-19 pandemic, India Post delivered government digital life certificates to customers who were unable to leave their homes because of lockdowns or illness.

Enabled by India Post Payment Bank's core banking system, which became fully online in 2018, the Post is able to identify and onboard customers through a national biometric identification system called Aadhar. The Post is also able to provide CICO services for other banks thanks to an instant real-time payment system called United Payments Interface (UPI).

This financial service generates revenue for India Post and has proven to be vital during the COVID-19 pandemic. When asked about critical success factors, India Post said "It is a combination of data and digital transformation – complete with safety features such as a firewalling and people who have knowledge of digital platforms."

2 SME Finance Forum, [no date]. MSME Finance Gap, SME Finance Forum. Available at: www.smefinanceforum.org/data-sites/msme-finance-gap

Through our analysis, we have found the main operational and financial needs of MSMEs to include:

BUSINESS MANAGEMENT	FINANCIAL NEEDS	RELEVANT PRODUCTS
Digital/physical discovery of their business or access to markets	Personal savings to shield micro entrepreneurs from unexpected family events (such as health issues or death) that can impact the business	Credit/loan
Tools to manage personal and business income and expenses separately	Working capital through debt finance for business advancement and continuity	Equity investments
Establishment, building and maintenance of a prime credit history	Equity financing for expansion, building brand strength and sustainability	Business insurance such as life/health group cover for employees, property/ equipment cover, workers' compensation, etc.
Plan for personal and business volatility	Insurance to build the business and individual resilience for the enterprise and entrepreneur	Payment solutions for digital transactions with customers, financial management with business relationships (suppliers/FSPs)

For MSMEs specifically, while business needs may be the same as for any other business segment, their financial needs are also driven by a requirement for greater agility and flexibility in the services offered, including access facilitated by limited KYC requirements.

For example, MSMEs need loans with flexible tenures and repayment structures ranging from daily to monthly. Similarly, products such as liability insurance that can cover the entrepreneur against unforeseen circumstances can be offered as a shield from negative coping mechanisms.

In this model, we thus recommend that Posts not only offer existing FSP products, but co-create products together with their partner FSPs and micro entrepreneurs. This means both working on the business and operational model and delivering the product to the MSME together.

To reiterate, rather than the Post simply providing account opening and CICO services to MSMEs, the Post and the FSP will tailor existing FSP products (such as wallets, savings, credit and insurance) to cater to the exact needs of the MSMEs.

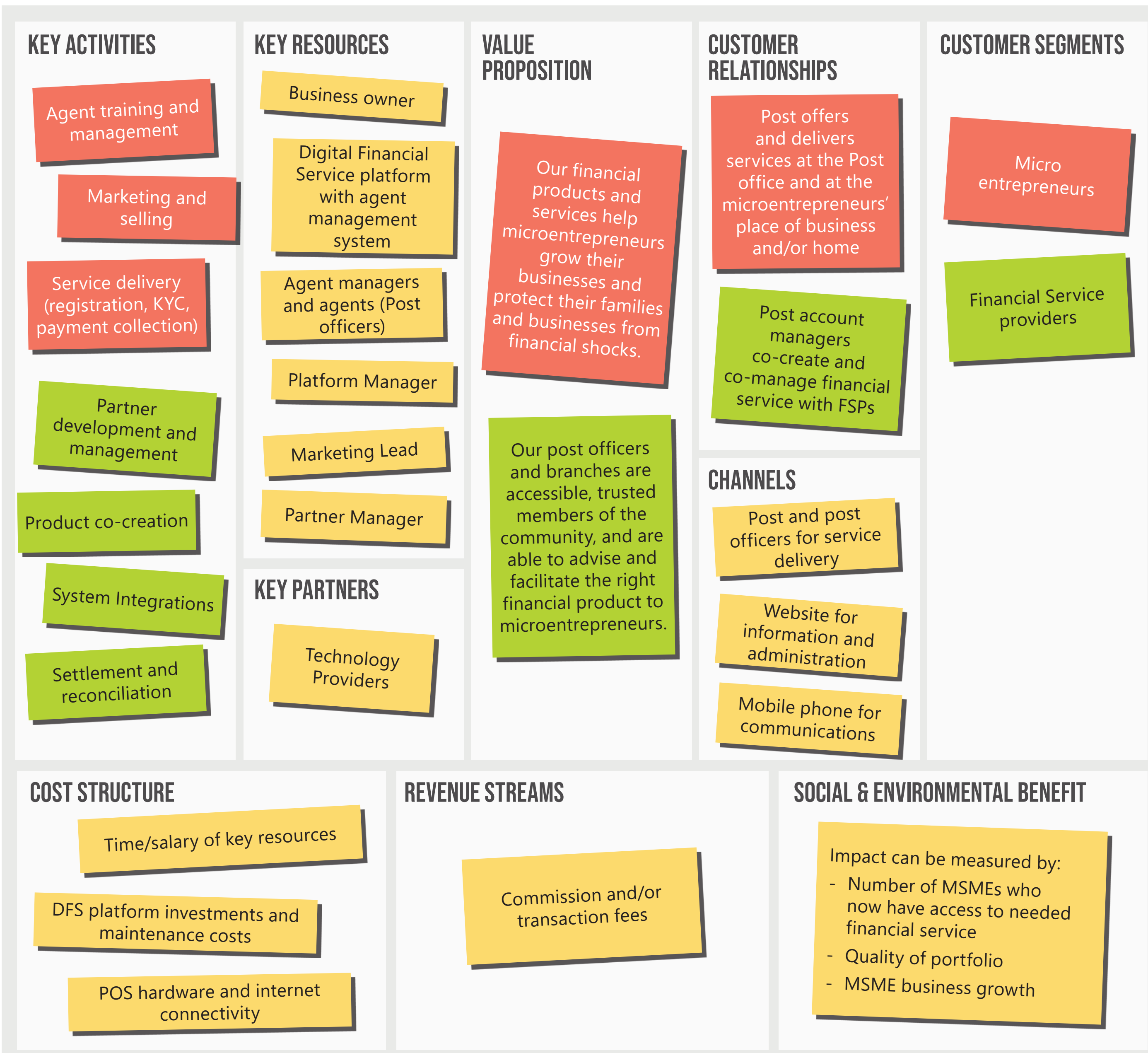
Business model canvas

With the context set for Posts as potential financial services agents, and with specific considerations in mind, the following business model canvas brings together the different elements for the Posts to evaluate when considering this role.

This is a two-sided business model wherein the Post must effectively serve two customer segments (MSME and the FSP) for the model to work.

Figure A: **Business canvas for model 1**

Colour coding: MSME related FSP related



Template source: www.businessmodelgeneration.com, assessment by the study team

Customer segments

The illustrated business model is an example of a multi-sided platform where a business serves two or more interdependent groups of customers.[3] In this case, the Post – acting as an agent – will create value for both the MSMEs and FSPs by facilitating transactions between the two. The business success lies in attracting and providing value to both customers (MSME and FSP) simultaneously, while clearly identifying which customers will be the source of revenue and the driver of products that are to be offered.

Since the MSMEs will be "buying" the FSP's products, it will be important to design the product features and experience for the MSME. In this model, it is likely that the transaction fees will be provided by the FSP, rather than the customer – it is rare that end customers pay "convenience fees" when transacting via a third party.

Moreover, to be able to serve the different needs of the MSMEs in the different regions of the Post's coverage, it is likely that the Post will have to partner with different FSPs to provide a diversified product offering across the whole region that it intends to serve.

Regulatory compliance

(This section is non-exhaustive and is specific to individual country requirements.)

In this business model, FSPs remain the owner of the financial products and are thus responsible for obtaining, maintaining and adhering to necessary licences for their products – this includes liability for their agents, which in this case is the Post.

For instance, agent banking regulations in Kenya and Tanzania (United Rep.) clearly state that the digital financial services (DFS) provider is responsible and liable for all actions or omissions of its agent and emphasize that this responsibility extends to actions of an agent "even if not authorized in the agency agreement as long as they relate to agent banking services or matters".[4]

On the other hand, Posts will need to consider country-specific regulatory frameworks for agent management, including exclusivity clauses, transaction limits and minimum capital requirements.

Many countries mandate non-exclusivity of agents, while a few allow exclusivity. In both cases, agents are free to serve multiple DFS providers. Where non-exclusivity is possible, DFS providers are typically responsible for assessing the capacity of an agent to manage transactions for multiple DFS providers before hiring the agent.[5]

The business success lies in attracting and providing value to both customers (MSME and FSP) simultaneously, while clearly identifying which customers will be the source of revenue and the driver of products that are to be offered.

3 Osterwalder, A & Pigneur, Y, 2010. Business Model Generation: A Handbook for Visionaries, Game Changers and Challengers (The Strategyzer series), (New Jersey: Wiley).

4 Kerse, M., Meagher, P. & Staschen, S., 2020. The Use of Agents by Digital Financial Services Providers – A technical note. Available at: www.cgap.org/research/publication/use-agents-digital-financial-services-providers

5 Ibid.

MODEL 2: DIGITAL PAYMENT ACCEPTORS FOR MSMEs

Background

Most Posts have an existing business relationship with MSMEs, providing delivery and shipment services for their goods. Posts can augment this relationship by adding a payment solution to their existing delivery services.

In this context, Posts could offer several solutions that allow MSMEs to accept payments according to their customers' preferences and existing capabilities and practices. The proposed digital payment solution should be able to:

Accept cash and digital payments via various means, such as cards, QRs and wallets;

Accept payment both at the time of placing the order or at the time of delivery – in some markets, the customers prefer to see the product before they pay;

Accept payments through all PO

S – direct via phone, direct via messaging, direct online sales, or via third-party platforms.

The journey from cash to digital can be facilitated by providing the above options, thus lowering the entry barriers for MSMEs and their customers. Also, as they gain MSMEs' trust in the system, the Post can encourage customers to convert to digital payments and to pay when ordering instead of on delivery.

Rationale

The global last-mile delivery market size is projected to reach 66 billion USD by 2026, compared with 39.6 billion USD in 2020, at a compound annual growth rate of 8.9% during the 2021–2026 period. Major factors driving the growth of the last-mile delivery market are the integration of advanced technologies into existing systems, rise in consumer demand for just-in-time delivery, increase in Internet penetration, and expansion of the e-commerce industry.[6]

Posts can use this momentum by enabling digital payment services, since most MSMEs are likely to look for partners with integrated solutions (such as those provided by Swiss Post).

Defining the role of Posts

Posts will offer delivery service and payment acceptance to their existing MSME clients. To implement this model, Posts need to partner with an acquiring bank or a licensed fintech and put in place a merchant agreement that will allow them to accept digital payments for MSMEs.

6 CISION PR Newswire. Last Mile Delivery Market Size is Projected to Reach USD 66,000 Million by 2026 at CAGR 8.9%, Valuates Reports, 15 December 2020. Available at: www.prnewswire.com/in/news-releases/last-mile-delivery-market-size-is-projected-to-reach-usd-66-000-million-by-2026-at-cagr-8-9-valuates-reports-869597416.html

Qatar Post has enabled fully integrated postal delivery POS in partnership with Qatar Islamic Bank (QIB) and QPay.

Using the new POS device, the QPay payment solution allows customers to make cashless payments on delivery when receiving parcels and other mail items.

The smart POS allows Qatar Post's delivery driver to know the exact customer details for each delivery – including the amount to be collected – by scanning the item using the QPay device, which has been fully integrated with the Qatar Post back-end tracking system. Customers are given the option to pay by tapping their contactless bank cards on the POS.

Posts can accept digital payments for MSMEs in the following ways:

IN-PERSON DIGITAL PAYMENT ACCEPTANCE

To enable acceptance of digital payments directly from MSME customers at the time of delivery using postal workers' handheld devices.

As part of the merchant agreement with the acquirer, the Post will equip their postal workers with adequate hardware and provide thorough training and change management[7] for their staff, so that they can effectively accept payments on behalf of MSMEs as they carry out their duties in the field.

Process flow for in-person digital payment acceptance:

1. Customer orders goods from MSME via phone, email, chat, social media
2. MSME fulfills order and packs the goods for delivery
3. MSME prints mailing label, enters amount and mode of payment (cash, card, e-wallet, etc.)
4. Post picks up parcel or MSMEs drops the parcel at the post office
5. Post delivers parcel
6. Post collects payment
7. If payment is in cash, Post will encourage customer to use existing cards or e-wallet solution
8. Post transfers payment minus fees to MSME (T-X day)

7 A systematic approach to dealing with the transition. First, initiating small incremental changes and controlling the pace of change to help people to adapt.

ONLINE DIGITAL PAYMENT ACCEPTANCE ON THE POST'S E-COMMERCE OR MARKETPLACE PLATFORM

The Posts of Argentina, Burkina Faso, Egypt, Fiji and Thailand are already providing e-commerce and digital marketplaces to MSMEs, enabling them to sell their products over the Internet. This also includes the provision of shipment services to deliver the goods to the MSME customers.

However, the payment mechanism is often cash. Having an online payment acceptance mechanism in place will allow Posts to accept payments while the order is placed over the Post's e-commerce or digital marketplace platform. However, the Posts can still offer to collect payment on delivery (POD) as described previously, until customer trust and comfort is established for making digital payments at the time of purchase.

> Having an online payment acceptance mechanism in place will allow Posts to accept payments while the order is placed over the Post's e-commerce or digital marketplace platform.

Process flow for online digital payment acceptance on Post-provided platform:

1. Customer orders goods from the Post's e-commerce site
2. Customer can pay online or choose to pay upon delivery
3. MSME fulfills order and packs the goods for delivery
4. MSME prints and attaches mailing label to parcel
5. Post picks up parcel or MSME drops the parcel at the post office
6. Post delivers parcel
7. Post collects payment if "pay upon delivery"
8. If payment is in cash, post will encourage customer to use existing cards or e-wallet solution
9. Post transfers payment minus fees to MSME (T-X day)

SWISS POST

Swiss Post has partnered with an acquiring bank to offer a white label Internet payment gateway and POS solutions to MSMEs. The Internet payment gateway is plugged into e-commerce or digital marketplaces, or provided directly on MSME websites by Swiss Post.

ONLINE DIGITAL PAYMENT ACCEPTANCE ON THIRD-PARTY E-COMMERCE OR DIGITAL MARKETPLACE PLATFORM

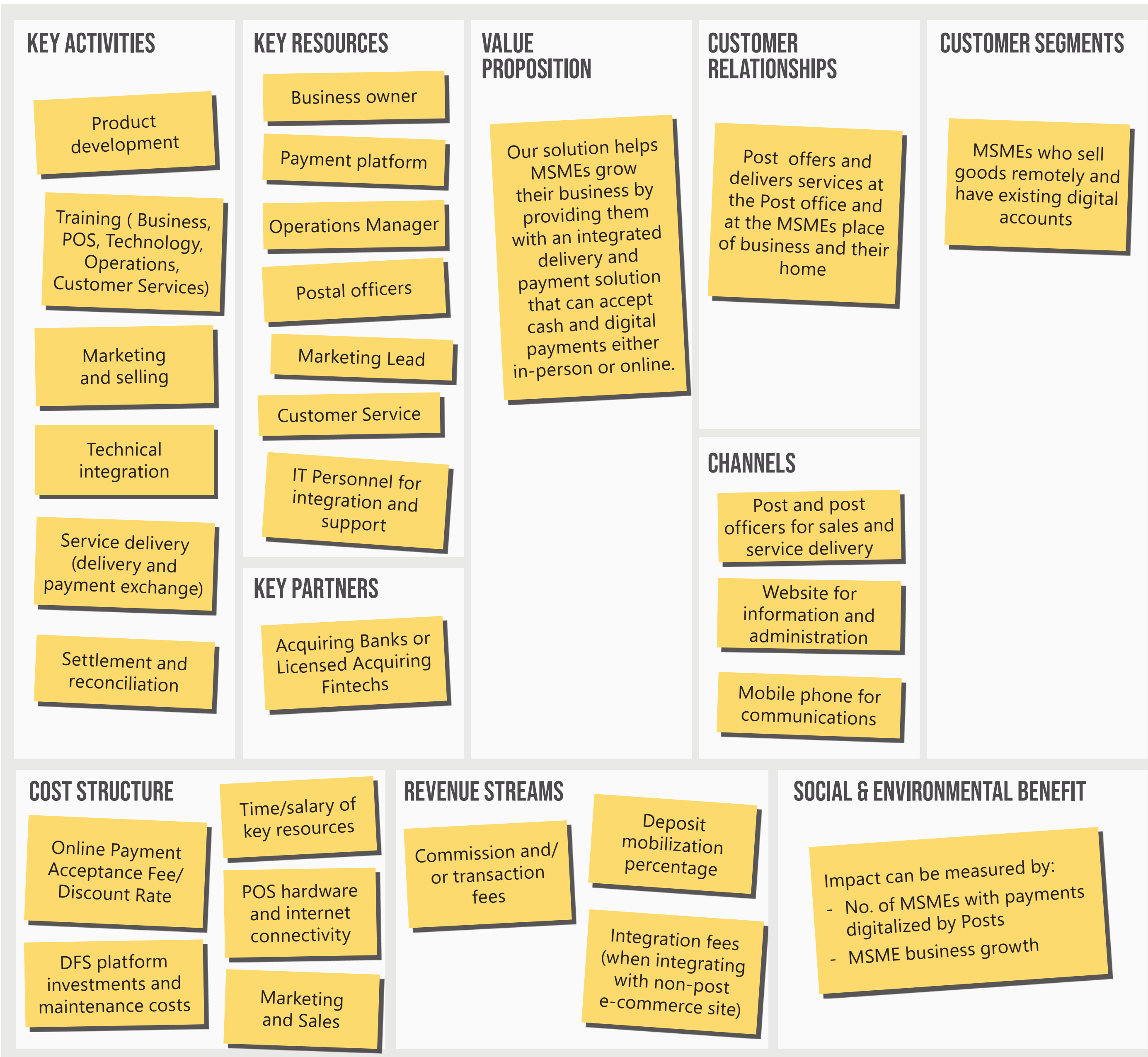
Posts can enable digital payment acceptance on various e-commerce and marketplace platforms, as well as on individual MSME websites, by integrating the Post's online payment acceptance mechanism and charging an integration fee in addition to the transaction fees.

Process flow for online digital payment acceptance on third-party-provided platform:

1. Customer orders goods from MSME's e-commerce site of choice
2. Customer can pay online or choose to pay upon delivery
3. MSME fulfills order and packs the goods for delivery
4. MSME prints and attaches mailing label to parcel
5. Post picks up parcel or MSME drops the parcel at the post office
6. Post delivers parcel
7. Post collects payment if "pay upon delivery"
8. If payment is in cash, Post encourages customer to use existing cards or e-wallet solution
9. Post transfers payment minus fees to MSME (T-X day)

Business model canvas

Figure B: **Business canvas for model 2**



Template source: www.businessmodelgeneration.com, assessment by the study team

Customer segment

As a starting point, Posts can explore this business opportunity with their existing MSME clients for which they provide shipment and delivery services, including garments, stationery, electronics, home and lifestyle, arts and crafts, food and beverages, and other fast-moving consumer goods (FMCG).

Posts can enable digital payment acceptance on various e-commerce and marketplace platforms, as well as on individual MSME websites, by integrating the Post's online payment acceptance mechanism and charging an integration fee in addition to the transaction fees.

Regulatory compliance

(This section is non-exhaustive and is specific to individual country requirements.)

The partner acquiring bank or fintech is expected to manage the bulk of the regulatory risks and requirements.

However, Posts will need to comply with certain requirements directly. For example, KYC compliance requirements for becoming a merchant and following merchant onboarding regulations/procedures would need to be met.

Another example concerns hardware. If Posts buy their own POS terminals for card payments, they will be required to ensure that their hardware is compliant with the Payment Card Industry Data Security Standard (PCIDSS). Posts will also need to incorporate adequate risk management measures, such as eliminating the risk of card-skimming devices on POS terminals.

MODEL 3: FACILITATORS OF SUPPLY CHAIN PAYMENT AND DELIVERY SERVICES

Background

Relying on their traditional strengths in logistics, delivery and financial services, Posts can provide payment and delivery services as part of an integrated supply chain solution. Similarly, there is opportunity for Posts to provide these services when facilitating payments between MSMEs and their suppliers.

Rationale

Supply chain payments worth trillions of dollars – around 6.3 trillion USD in payments from retailers to their suppliers alone[8] – are still being made in cash. In the agricultural sector, 235 million unbanked adults in developing countries continue to be paid in cash. [9]

Defining the role of Posts

To facilitate delivery and payments in an integrated supply chain solution, the Post can leverage its existing infrastructure for scheduling and routeing deliveries. To enable payments, the Post will require a licensed acquirer partner and will need to set up a platform and operations to accept payments as described in the previous model.

The following are two unique business models that Posts can consider in supply chains of MSMEs and smallholder farmers. In both cases, the Post is in a unique position to deliver and record the exchange of goods within the supply chain by leveraging its existing delivery infrastructure.

In addition, the Post can facilitate the exchange of payments between two parties as the goods are delivered. Posts can accept payments in cash or trigger a digital payment exchange upon delivery and acceptance of goods.

Posts can do this by recording the transaction using a mobile POS. In corporate supply chains, transactions are already recorded digitally except for last-mile transactions involving small retailers and agri-businesses and smallholder farmers. The following business models are focused on digitalizing these last-mile supply chain players.

POSTS CAN FACILITATE DELIVERY AND FINANCIAL TRANSACTIONS BETWEEN FMCG[10] AND SMALL RETAILERS

Of the estimated 180 million MSMEs in developing countries, just 10 percent have undergone digitalization.[11] In many cases, these shops run out of stock, have limited financial resources, and lack proper business management tools. Some fintech companies, such as Sokowatch in Africa and TiendaPago in Latin America, have attempted to address this concern by linking the FMCG distributors and retailers with the use of technology.

8 World Bank, 2016. Cash vs. Electronic Payments in Small Retailing.

9 Ibid.

10 Fast moving consumer goods (FMCG) are products that sell quickly at a relatively low cost. These goods are also called consumer packaged goods.

11 World Bank, 2016. Cash vs. Electronic Payments in Small Retailing. T. Carlberg, Y. Lien, M. P. Gomez, A. Nayar, J Dougherty, A. Gugelev & E. Boll, 2016. Small Merchants, Big Opportunity: The Forgotten Path to Financial Inclusion, Dalbery, study commissioned by VISA, INC. Available at: globaldevincubator.org/wp-content/uploads/2016/11/Small-Merchants-Big-Opportunity.pdf

Usually, shop owners are able to order inventory via their mobiles (SMS or smartphones) and orders can be made in credit. This has been made possible by digitalizing ordering, inventory and payment systems. Generally, the FMCG suppliers are able to provide credit based on the shops' inventory and payment transaction history and, potentially, the shop owners' credit history.

Below is the suggested process flow for Posts as a facilitator of delivery and financial transactions between FMCG and small retailers.

The following table summarizes the role and incentives of each player in this supply chain.

Customer buys goods*

Merchant provides goods and records transaction in APP**

The app will warn merchant when the inventory reaches low treshold

Merchant orders goods using the system

FMCG supplier accepts order***

Posts delivers goods and collects any payment due****

* In emerging markets, cash is still likely to be the dominant form of payment. It will therefore be in the interest of the merchant to be able to accept both cash and digital payments. The merchant can, however, take the opportunity to encourage the customer to open a digital account if the programme includes such provision.

** In many cases, scanners are not available in small shops and, in these cases, the merchant has to record the transaction.

*** Based on the cited examples, the FMCG supplier provides the goods on credit to give incentive for merchants to join in the programme. This credit can start small and increase gradually based on the merchants' transaction history.

Thailand Post is a successful example of a Post working with smallholder farmers to bring its goods to market via the provision of delivery, payment and e-commerce services.

In 2017, Thailand Post established Thailand Post Mart (TPM) to help smallholder farmers bring their produce to market – both domestically and internationally. TPM's app has more than 100,000 downloads and the platform hosts 5,278 shops actively selling more than 10 types of products.

In partnership with Japan Post and Amazon USA, these products are also for sale in the markets. Farmers are informed and onboarded into the platform with the help of Thailand Post's 30,000 postal workers in 1,400 branches. Merchants are able to onboard for free online and can also go to the post office for assistance. The Post also collects and delivers the goods for the merchants. The post office and the merchants share the net profit 50/50.

Thailand Post works with a technology provider to provide this service. It also employs search optimization using Google and Facebook tools. Cash and other cards can be accepted for payments, but the use of e-wallets is advocated.

Give and get for each player in the supply chain

	MSME MERCHANT	FMCG	PAYMENT FACILITATOR (MERCHANT/ ISSUER/	PREPARATION OF COUNTRY PROFILES IN REGIONAL POSTAL ASSOCIATION	STRUCTURED INTERVIEWS WITH POSTAL ORGANISATIONS AND ASSOCIATIONS	KEY INFORMANT INTERVIEWS WITH NON POST PLAYERS
Give	Time to record transactions Time to offer and open cards/ wallets Transaction fee for digital payments Credit interest	Goods on credit	Payment facilitation	Credit	System to record transactions, track the movement of goods and payments, and provide notifications to players	Facilitation of delivery and financial transactions between FMCG and small retailers Collection and delivery services for the movement of goods Collection of payments
Get	Credit Real-time inventory fulfilment More revenue Commission from opening card/wallet accounts for end customers	More orders More revenue Understanding of end-customer preferences Real-time supply chain insights Goodwill for financial inclusion	Transaction fees Transaction history New customer segment	Interest Fees, if any New customer segment	Implementation fee Transaction fees if SaaS or licence fee	Delivery fees Transaction fees Goodwill for financial inclusion

THE POST CAN HELP SMALLHOLDER FARMERS WITH THEIR ENTIRE SUPPLY CHAIN, INCLUDING DELIVERY OF INPUTS, AGGREGATION OF OUTPUTS, AND FACILITATION OF THE INTERMEDIARY FINANCIAL TRANSACTIONS

Aggregating smallholder farmers and linking them in the supply chain can help them to increase revenue and decrease risk by collective bargaining on inputs and when selling outputs. As an example, payAgri is an Indian agri-fintech start-up that facilitates trade and payments across the agricultural value chain by providing direct linkages and a cashless ecosystem between farmers and their suppliers and buyers.[12]

payAgri is unique in that it took on the challenge of providing holistic services to smallholder farmers: from providing inputs, advice and financing to smallholder farmers, to processing raw materials and selling the final products, which may require substantial investment.

Other start-ups only provide the marketplace between farmer and supplier and farmer and buyer, such as FarMart.[13]

The FarMart app allows agri-businesses to serve farmers better, through advisory services, product information, and raising invoices. It also provides an interface for food businesses to source directly from farmers.

Posts can partner with the likes of Pay Agri and FarMart to provide POD services alongside its delivery services.

Give and get for each player in the supply chain

The following table summarizes the role and incentives of each player in this supply chain.

	SMALLHOLDER FARMER	AGRI-BUSINESS SELLING INPUT	AGRI-BUYER (AGGREGATOR, RESTAURATEURS, SUPERMARKET)	CREDIT PROVIDER (THIRD PARTY)	TECHNOLOGY PROVIDER	POST
Give	Produce Interest fee on loans	Goods on credit	Fair market price	Credit	System to record transactions, track the movement of goods and payments, and provide notifications to players Credit underwriting	Collection and delivery services for the movement of goods Collection of payments
Get	Credit Fair price for product Credit history	More orders More revenue More understanding of end-customer preferences	Good quality produce	Interest Fees, if any New customer segment	Implementation fee Transaction fees if SaaS or licence fee	Delivery fees Transaction fees Goodwill for financial inclusion

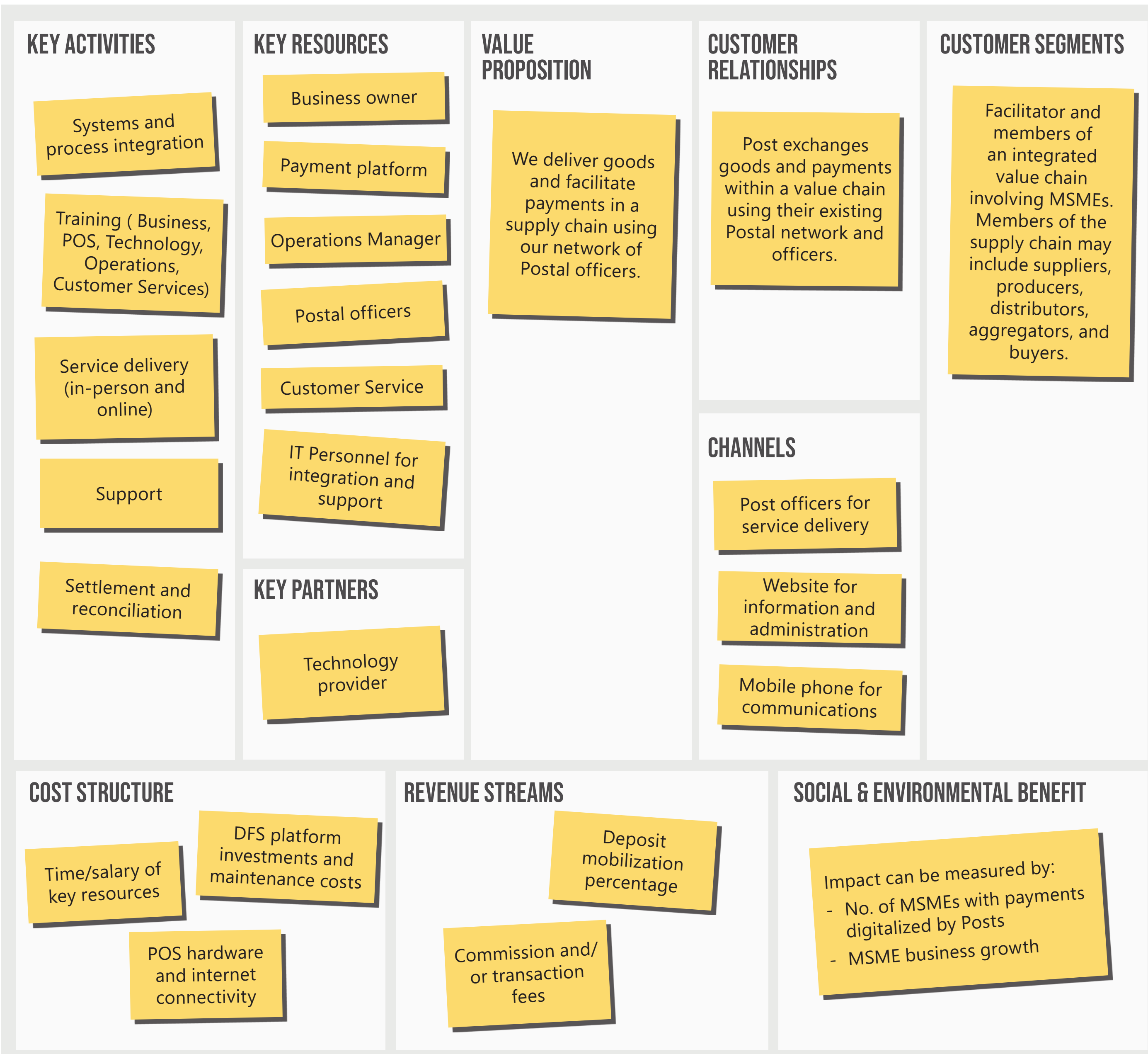
12 payAgri, available at: www.payagri.com/about.html

13 FarMart, available at: www.farmart.co/aboutus

Business model canvas

The following business model canvas applies to both of the supply chains mentioned above for MSME retailers and smallholder farmers. The recurring postal activities and revenues are focused on the exchange of goods and payments after the initial process setup and system integration have been accomplished. The customer segments can be further defined based on a specific supply chain, after which the value proposition and product design can be further tailored to the said customers.

Figure C: **Business canvas for model 3**



Template source: www.businessmodelgeneration.com, assessment by the study team

CHALLENGES TO MSME PAYMENT DIGITALIZATION

Merchant-level challenges

ISSUE	EXPLANATION
KYC and tax implications	The onerous and expensive onboarding process requires merchants to have formal ID and supporting documents and exposes them to tax compliances. This was echoed strongly during the focus group discussion (FGD) in Mexico, where merchants have apprehensions that digital transactions may attract income-tax-related issues.
Transactions and hidden costs	While accepting cashless payments, merchants are subjected to transaction fees that erode their already thin profit margins. Unanticipated maintenance fees and penalties expose merchants to financial hardship that is not otherwise experienced when accepting cash. This has also been the experience for merchants from Senegal and Tunisia who participated in our FGDs.
Fragmented digitalization in business value chains	Broken links in the digital payment value chain do not provide a seamless experience for merchants. For example, suppliers or distributors demand cash from retailers, which in turn has a cascade effect on the way merchants set their expectations while transacting with their consumers. During our data collection efforts in Tunisia, this challenge was voiced strongly by the merchants who mentioned that 90% of their suppliers do not accept digital payments.
Initial and ongoing investments	There are concerns about the level of investment required by MSMEs to adopt payment digitalization (e.g. hardware costs, process changes, training time). In India, Senegal and Tunisia, we found that the merchants are reluctant to adopt POS-based solutions owing to higher initial investment/monthly rentals for the POS devices.
Lack of hand-holding support	There is frustration stemming from the digitalization process that often does not provide MSMEs with adequate support during onboarding and day-to-day operations.
Low digital exposure and literacy	Low digital, business and finan cial literacy among MSMEs are major challenges. The skills gap is higher for women in emerging markets.
Data confidentiality and exposure	Despite the possible appeal of the solutions on offer, MSMEs have concerns about the handling of sensitive information with potential exposure to fraud on the digital platform.
Perceived low value for payment digitalization	Digitalization of payments can bring efficiencies to MSMEs; however, for very small merchants and smallholder farmers, an increase in efficiency is unlikely to cover the initial investment required. Even when free, digitalization alone is unlikely to improve the livelihood of very small merchants and smallholder farmers.

End-consumer-level challenges

ISSUE	EXPLANATION
Poor digital and numeracy skills	Customers of MSMEs often have low levels of digital and numeracy skills with limited exposure to digital platforms and instruments.
Abstract concept of digital payments	Payment via digital channels is perceived as abstract and intangible where the touch and feel of currency are missing. Consumers view this as a loss of control over expenditure and transactions, often leading people to spend more than they can afford.
Lack of access to digital channels	The affordability of devices allowing for digital transactions is sometimes a key barrier to the adoption of DFS. Moreover, poor or unreliable connectivity and electricity, especially in the developing world, inhibits a smooth user experience, which in turn has a negative impact on uptake.
Lack of access to formal financial services	Low-income consumers who make more frequent and low-value/small-ticket purchases do not always have access to formal financial services such as bank accounts, thus excluding them from digital payment channels linked to such accounts.
Poor user experience	Digital payments can take longer to complete, especially if there are lengthy menus to navigate or data to enter by either the customer or merchant, which is a drawback of many digital payment systems.
Transaction fees	Digital payments are sometimes accompanied by transaction fees since that is the most obvious way to generate revenue from the service. This can deter customers from paying digitally.

Ecosystem-level challenges

ISSUE	EXPLANATION
Regulatory barriers	Stringent regulations in financial and enterprise sectors exclude many MSMEs, particularly from the micro and small segments, from participating in the formal economy. Lack of evolution and flexibility in regulations stifles innovation to develop need-based products.
Infrastructure barriers	Fragmented infrastructure such as Internet connectivity and data networks, along with a lack of equipment (hardware and software for authentication, validating transactions, etc.) often exclude populations, especially those from low resource settings. Internet connectivity was one of the deterrents pointed out in our conversations with merchants from India and Tunisia.
Lack of tailored products for MSMEs	Traditional digital payment systems and business models are not designed to serve MSMEs and their needs. The necessary acceptance infrastructure, such as POS terminals, is expensive and the costs of inducting new merchants are significant.
Lack of appropriate consumer protection measures	The lack of regulations to ensure consumer protection and absence of grievance redressal mechanisms leads to low usage and adoption of digital financial products.
Limited interoperability	Limited interoperability is a key issue in the digital payments ecosystem that bars users from making electronic payment transactions with users of different service providers in a convenient, affordable, fast, seamless and secure way.
Gender gaps in access to digital channels	For MSMEs owned by women, levels of digital access and literacy can be particularly low when compared to their male counterparts, owing mainly to social and cultural norms. Therefore, there is a need to adapt product/service features and training methods to better cater for businesses owned by women.

KEY RISKS AND PROPOSED MITIGATIONS

The following table presents the common risks and proposed mitigations associated with offering payment digitalization services to MSMEs. These apply to the three business models proposed in this study, and provide an indicative, but non-exhaustive, list of possible risk areas that may help Posts initiate a formal risk assessment exercise.

A deeper risk assessment framework should be developed as Posts decide to adopt one or more of the proposed models, with well-outlined mitigation measures.

POSSIBLE RISK AREAS	PROPOSED MITIGATIONS
Low product uptake – target customers are not buying the product/services offered	The risk of target customers not buying the product and services on offer can be mitigated by continuous product iteration and ensuring that customer feedback is incorporated until a product–market fix has been achieved.
	If customers are generally satisfied when they have tried the product, low uptake could also be owing to a lack of staff incentives and training to market the product and provide after-sales services, including solving information asymmetries. This should be addressed through strategic initiatives to revise marketing and sales strategies to keep staff motivated and prioritize the payment digitalization product vertical.
Registered customers do not/rarely use the product/ service	One reason for this is that the value proposition may not be strong enough for the customer. It will be important to open channels to obtain feedback from the customer and adjust the product as necessary
	It is also possible that the customer is dissatisfied with the quality of the product or service or may have found a more viable solution through another provider. Mitigation should include: - Product pilot exercise to ensure that there is a clear value proposition for customers, with identified gaps adequately addressed before scaling up; - Market landscape studies and analysis to precede product roll-out.
	Incentives can be introduced for customer stickiness, continuous product usage, long-term adoption of products, service loyalty, and repeated utilization.
Customers are dissatisfied with customer service	Ensure that there is an easy way to gather feedback or for customers to contact the Post. Monitor issue resolution turnaround times (TATs). Ensure that all customer-facing personnel have the right incentives to provide adequate customer service – pre- and post-sales – and are equipped to do so.

POSSIBLE RISK AREAS	PROPOSED MITIGATIONS
Service failures/ downtime	Ensure that products are tested and proper user acceptance testing is carried out with stakeholders before roll-out.
	Carefully evaluate externalities that may hamper product uptake, such as competition offering similar products, changing customer needs and regulatory momentum.
	Prepare offline processes to continue the provision of seamless services even when automated systems are down. This is where the physical and digital strengths of the Post can be leveraged.
	Ensure favourable but reasonable service-level agreements with technology, connectivity and switch providers.
Heavy reliance on partners	Enter into win–win partnerships. Partnership agreements should state clear roles and responsibilities, regulatory liabilities, and cost and revenue sharing. Also, include clear exit clauses allowing parties ample time to replace partners if needed.
Transaction fraud – card skimming, disputed transactions and transaction risk monitoring	Ensure that postal staff receive training from partners on card skimming mechanisms and how to safeguard devices before rolling out digital payment products.
	Ensure that speedy transaction data/logs are provided to partners to investigate disputed transactions.
	Provide support to partners in transaction risk monitoring and provide information and follow instructions to investigate risky transactions for regulatory compliance, such as anti-money laundering and combating the financing of terrorism (AML/CFT).
	Customer information services should include full disclosure about the potential transaction risks involved and possible recourse in case of adverse events.
	Mitigation measures should be part of the partnership agreement.
Data/transaction break – cyber, data and PCIDSS	Posts should be trained by partners on necessary areas of cyber security and data protection in terms of the Posts' responsibilities for the business models.
	Partners should train Posts on how to comply with PCIDSS for payment acceptance business models, especially for devices that will be procured directly by the Post.
	Mitigation measures should be part of the partnership agreements.
Increased budget and time-to-market from project implementation delays	Employ tried and tested project management principles. Apply lean and agile product development methodologies to reduce costs and decrease time-to-market.

HOW CAN POSTS GET STARTED?

Each of the proposed models for Posts to enable MSME payment digitalization is based on a number of unique circumstances that have been highlighted in the respective role descriptions.

However, there are key considerations that are common across **regulations**, operational questions such as **client-centric practices,** and the establishment of **high-value partnerships,** among others, that will scaffold the decision-making process for Posts as they consider adopting them as part of their broader DFS goals, as well as for digital payments in particular.

These considerations begin with thinking about the first steps required to realize the aspiration to offer digital payments.

The following steps are based on **a lean and agile approach commonly used by start-ups and technology companies** to develop products in a quick and cost-effective manner.

STEPS	DESCRIPTION
Appoint a business owner	Once the Post has made the decision to move into MSME payment digitalization, appointing a business owner that understands the financial services business, including its technology and operational requirements, should be the first step. The Post should consider hiring for this high-skilled position if such talent is not available in house.
Develop a business case/ go-to-market strategy[14]	This includes identifying and assessing the size of the market, scoping and mapping the competition, and developing a financial business model and a go-to-market strategy that includes a sharp focus on a particular customer segment to ensure differentiation, especially in near-saturated markets. This plan should also consider regulatory aspects that may shape the model.
Find the right partners	This requirement will differ by the role that Posts will assume: **For model 1,** this means looking for different FSPs and a platform provider, and discussing revenue, costs and risk-sharing mechanisms. **For model 2,** this means establishing partnerships with the acquiring banks or licensed fintechs and agreements with them to include the discount rate, deposit mobilization percentage, online payment mechanism fee, and settlement process. **For model 3,** this means partnering with different actors in the value chain, such as distributors, suppliers, producers, etc., and would involve clear articulation of the contributions and roles of each member of the value chain. In any of these cases, it is important to aspire for win–win partnerships and to clearly state and sign off on the roles and responsibilities of partners, aside from revenue and cost shares.

14 We explore some of the key elements that a go-to-market strategy should consider in the next section.

STEPS	DESCRIPTION
Develop the minimum viable product (MVP)	This process must start with understanding customer needs and clearly defining a value proposition that can pull adequate demand for the product. This should be followed by a consultative and iterative engagement process with customers, to ensure that product development takes shape by defining terms and conditions, preferred delivery channels, and after-sales engagement. The entire process should plot the product and user experience across awareness, interest, purchase, and consumer endorsement to expand market reach.
Pilot the MVP	The MVP should then be tested in several pilot groups and continually enhanced until a product-market fit has been achieved. A product-market fit is achieved when “the product meets real customer needs and does so in a way that is better than the alternatives”.[15]
Plan for product roll-out	While the MVP is being tested, the team can plan for operational roll-out. This includes defining and standardizing business processes, procuring required materials, and training the team. Perhaps one of the most common gaps in product roll-out plans is the absence of a standardized customer complaint redressal mechanism, the responses for which can be effectively communicated back to product developers as inputs for the product.

15 Dan Olsen, 2015. The Lean Product Playbook (New Jersey: Wiley).

KEY CONSIDERATIONS FOR A GO-TO-MARKET STRATEGY

In this section, we identify and explore some of the key considerations for Posts in designing their MSME payment product strategy.

Regulatory requirements

Postal administrations work in differing regulatory environments and the choice of adopting any of the suggested models and the associated delivery channel, including the revenue model, will be dictated by the prevailing regulatory regime. From this perspective, it will be important to be attentive to the following broad components of regulations under any national regime.

Governance

Posts will be required to develop a governance structure to oversee business and operations focused on payments, settlements, reconciliation and the handling of customer grievances related to payments. Since the Posts already have a working model for deliveries, these will need to be adjusted to include the payment plugin.

Consumer protection

Since all of the proposed roles recommend a partnership model with an FSP to provide payment digitalization services, the responsibility to align with consumer-protection-related guidelines lies with the FSP.

However, this means that to create and maintain fair market infrastructure, the FSPs should set clear rules for the Posts and their frontline staff, directly engaging with customers regarding their customer-protection-related duties.

The use of Posts as agents may increase the risk that customers will be unable to understand their rights insofar as what that the FSP may be liable for and will press claims when aggrieved. For the most part, customers are not clear as to how they will be protected against fraud when they use agent services to conduct financial transactions. Some actions that the FSPs and Posts should agree upon are:

FSPs should set clear guidelines relating to customer complaints and dispute resolution, including channels for lodging a complaint with clearly defined TATs. Moreover, the role of Posts in the guidelines should be well defined, and there should be systematic and concrete efforts to make them available for the public.

FSPs must publish a schedule of charges for Posts' agent activities periodically (based on a predetermined frequency as mandated by agreements signed between Posts and FSPs or as mandated by the regulatory authority) and make it available to the public through the Posts' agents, their websites and any other channels.

The FSPs should create a customer awareness programme for their Post agent-related activities, including consumer protection against fraud. This should be embedded as part of consumer engagement during product uptake, as well as in after-sales services.

Data protection

Data protection policy and regulations is an emerging area and most countries, especially in the developing world, are working to establish their own. Agent networks cut across different sectors, such as financial institutions and telecommunications, with significant implications on the collection, storage and usage of end-consumer data.

Posts need to be aware of what they themselves are legally accountable for with regard to data breaches and misuse of customer data, and of what their partners need to be responsible for.

KYC rules

For tiered and risk-appropriate KYC considerations, Posts can be an efficient partner for FSPs by providing information and hand-holding support to meet the requirements. Posts are also able to mitigate paperwork-related issues by providing assistance, especially to merchants and businesses that consider KYC rules as barriers.

Such barriers can be addressed by putting in place a differentiated KYC system that can offer varying degrees of access to a financial service, depending on the KYC furnished by the merchant.

Anti-money laundering/combating the financing of terrorism (AML/CFT)

Posts serving as agents can expose the FSPs to various risks. The FSPs should have an efficient due diligence framework for the postal agents depending on the complexity of services on offer as specified in the business agreement. The framework can specify due diligence checks for the postal agents, to build confidence among local people to conduct financial transactions.

The providers must ensure that important frameworks such as KYC and AML/CFT are in place for postal agents and customers, and that necessary training is provided to the postal agents to ensure regulatory compliance.

Moreover, the providers should take measures to ensure that the postal agents are not involved in illegal/parallel banking activities, including hawala and hundi.

Putting customers at the centre

Interviews with experts in the fintech space suggest that the most successful fintechs start with consideration of customer needs.

This is no longer a merely strategic decision, but a necessity in that the uptake, usage and adoption of financial services is increasingly demand driven, even in emerging markets.

Today, a growing number of consumers are using different providers for different products. In the payments space, within the span of a decade or so, the typical customer has shifted from using a cheque book or card issued by his or her bank to a long list of providers for different payment needs: these include PayPal when purchasing online; Venmo when sending money to friends; LevelUp when having lunch or dinner; Revolut when travelling internationally; TransferWise when sending money abroad; and Apple Pay, Google Pay or Samsung Pay for retail payments, depending on which phone the customer happens to have on hand.

This multiplicity of options will soon affect customer behaviours for businesses and individuals in low-resource settings; as Internet connectivity improves and data becomes cheaper, digital technology-backed payment solutions become more accessible.

It is important that Posts recognize this changing landscape and adopt a more customer-centric approach to designing and delivering products. This may be done with any one or combination of the following tools:

- Market research to identify high-level needs and barriers to product uptake;
- FGDs to gather more incisive insights on behaviours that drive adoption, to ensure that client onboarding is followed by high usage;
- Value proposition design or understanding of customer jobs and aspirations;
- Mapping the customer journey in a way that optimizes existing customer behaviours rather than creating new pathways for interaction;
- Rapid product prototyping and testing to understand the optimal user experience, to drive adoption and client stickiness;
- Adequate customer support mechanisms afforded by the physical and digital touchpoints provided by the wider postal network.

Leverage value-added partnerships

Overall, to minimize entry barriers and risks, a win–win partnership model between Posts and their partner(s) – for any of the roles suggested – can be defined using the following structure:

POST OR PARTNER?	ROLE	WHAT WILL THE ROLE ENTAIL?
Partner	Balance sheet management	Provision of capital, risk management and balance sheet risk
Post and partner	Product creation	Designing and manufacturing individual payment products and services focused on the identified market segment
Post	Customer acquisition and maintenance	Customer acquisition, onboarding, after sales, and Posts as the permanent primary interface
Post	Distribution	Postal physical touchpoints for serving customers, helping onboard digital platforms by merchants with low digital capabilities, offering information services
Post	Customer services	Postal physical touchpoints serving as service and call centres for handling customer queries, complaints and providing resolution within the TAT agreed with the partner, along with compliant management information system reporting to partners for further reporting to the regulator as per the agreed frequency

Some general considerations relating to partnerships:

Share roles and responsibilities:

even as the Post positions itself as the frontline for end customers from marketing to post-sales, other back-office tasks can be shared between the Post and the FSP. This division of roles has to be explicitly stated in the agreement and workflow to ensure a smooth experience for the end customer.

For example, in servicing a loan to an MSME, the Post can market the loan, assist the enterprise with the loan application, and from there, pass on the loan to the FSP for underwriting. Either the FSP and/or the Post can be responsible for the disbursement and repayment of the loan, depending on the agreement.

Define revenue and capital/ cost structures:

Posts will need a settlement account and settlement fund (capital requirement) that is agreed upon with their partners. The capital requirements, source of revenue and cost sharing will vary with each product and partnership.

For example, in retail payment acceptance the merchant fee is usually embedded in the product price and shared between the issuer, acquirer and the payment scheme.

Identify the correct technology partner(s):

these business opportunities will require a digital platform that will allow the electronic exchange of transactions and information between different parties – MSMEs and their customers, the Post and its agents (postal workers), and the Post and its FSP partners.

It is recommended that the Post partner with a technology provider to procure this platform as it may take time to develop such a solution. Moreover, it will require the Post to have the bandwidth and internal resources and skills needed to develop and manage the platform.

Partner with payment aggregators:

as the payment industry is evolving, innovative companies are adopting new payment models. One such model is the payment aggregator that facilitates payments by aggregating multiple payment instruments, including accounts, wallets and cards for customers to pay for their purchases (either online or in store) or against their business invoices in a digital, secure and convenient manner.

Payment aggregators are especially useful as they allow customers to choose their preferred payment means through an ever-growing network of merchants, businesses, participating banks and other financial institutions.

Posts can develop partnerships with payment aggregators and offer a broad variety of digital payment acceptance options for MSMEs, enabling customers to pay through their preferred digital payment methods (cards, bank accounts, wallets).

Place a strategic resource to drive the Post's interest:

while Posts will rely on FSPs for the licence/product and services to deliver, as well as technology providers, they will need a business owner at the executive level. This business owner should be knowledgeable at both the strategic and operational levels of managing partnerships and business in a financial industry. Thus, while some key aspects of the business rely on partners, strategic decisions still need to sit within the Post.

This will also ensure that Posts are not "vendor locked" and that they are able to engage with a wide range of players in an open architecture ecosystem to scale up as needed.

Acquire, develop and retain required talent

Postal workers and managers are a critical factor in all of the proposed business models. Under every partnership model discussed, the Posts remain the primary entity acquiring and managing the end customer – MSMEs in this case.

It is therefore important to assess and address the skills gap required to add new functions to an existing job. This would mean mapping competencies and providing training and incentives as needed.

One of the expert consultations suggested listing job functions with corresponding incentives and democratizing the approach where current postal staff can choose to apply to participate in the new programmes.

This approach recognizes the different needs, capacities and aspirations of postal employees and helps identify and nurture talent with a mutual interest between the administration on the one hand and employees on the other.

Perhaps more important than professional development opportunities is a change in the core culture of Posts to put into action their desire to digitalize their offerings and scaffold their current services to MSMEs with a strong digital payment plug.

The traditional framework for the change management approach usually involves two main angles:

Technical change (digitalization "change" strategy, technology implementation, development, helpdesk/issue tracking, workflow management, monitoring and evaluation);

People change (stakeholder involvement, skills development and training, communications including marketing/branding, customer support) that bring the entire organization into its digital vision.

Invest in appropriate technologies

Devices and connectivity:

Posts will need connectivity and devices to accept and record payment transactions. Simple transactions can run on USSD and 2G connections, while account opening and loan applications will need smartphone-based solutions with 3G connectivity.

For places where connectivity is an issue, the Post should consider utilizing innovative data synchronizations and customer identity solutions. For example, SMS can be used with physical ID to authenticate a cash-out transaction, while data capture (e.g. loan application) can be done offline and uploaded later when a connection becomes available.

Connectivity to national/ regional switches:

Payments require the transmission of information between different players (e.g. acquirers, issuers, etc.). While a national payment switch can simplify routeing transactions and negotiation of fees, facilitating digital financial transactions can work bilaterally with several leading country switches and aggregators.

Where possible, Posts should opt for switches and aggregators that have open architecture. This encourages easier adaption, which should bring more players into the same network.

Adopting open infrastructure standards:

Posts can establish strategies to open up their application programming interfaces (APIs) and invest in an open API platform to establish a postal digital economy, further creating digital rails for interoperability of DFS with ecosystem participants. This can provide a seamless experience for customers to access different digital financial products and services through Posts and other FSPs.

LA POSTE

La Poste France made a concerted effort to incorporate culture change management processes to spark innovation – the "La Poste 20 projects for 2020" intrapreneurship programme was launched in 2014 to seek new avenues for growth for the Post. A total of 4,500 participants registered across 11 European countries. In turn, 12 teams were selected, based on their project application, and were provided with training for a year to turn their ideas into reality. In the end, 16 ideas were selected for further development. Such initiatives create concrete mindset change and inspire employees to innovate. This kind of approach also promises faster digital evolution for Posts.

Build up cybersecurity capabilities

Posts serving as financial services agents may have to comply with some areas of the regulator's cybersecurity framework applicable to the FSP in a country. These can range from security protocols embedded in back-end technology, to restrictions around third-party access to systems, to ensuring that the desktop or mobile application for user interface has all the latest elements to safeguard from vulnerabilities, threats and viruses, to having adequate mitigation measures in place when security breaches take place.

For mitigation in case of an adverse event involving a cybersecurity breach, responsibilities – including liabilities and risk ownership – should be clearly defined between the Posts and the partner FSPs.

ANNEXES

DISCLAIMERS

This publication by the UPU constitutes research in progress of an informational character for which no guarantees or assurances are provided; in this regard, it shall not be deemed to represent the official position or opinions of the UPU or its staff members, or of UPU member countries.

Moreover, the depiction and use of boundaries, geographic names and related data shown on maps and included in lists, tables, documents and databases are not warranted to be error-free, nor do they necessarily imply official endorsement or acceptance by the UPU.

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The views expressed in this paper reflect the opinions of the authors alone and do not necessarily reflect those of the UPU or its partners.

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FITAF provides technical assistance to 20 postal operators globally. It supports postal operators in digitalizing their financial services to better meet the needs of low- and moderate-income populations. In addition to supplying technical assistance, FITAF provides learning through the publication of thematic studies.

These thematic studies capture the successes, lessons learned and critical challenges faced by Posts that are either implementing or planning to implement DFS projects.

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