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Asia-Pacific's Momentous Shift from Cash to Digital Payments:

Postal Account Innovation to
Fuel a Win for Underbanked
Individuals, Governments, and
Financial Partners

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Some argue that post offices will go the way of the dodo, outpaced by their nimbler competitors. But, post offices have unique attributes, whose extinction would be a real loss. They are worth preserving and reinforcing in the information age, using postal accounts as routes to financial inclusion. Just ask women in Bangladesh.

ABSTRACT

There is a confluence in the Asia-Pacific region of several interesting and important phenomena:

- Overreliance on cash, with its attendant problems
- Postal accounts, grounded in local, familiar, available, and trusted post offices
- A growing middle class increasingly interested in engaging in financial transactions, including digital payments

These tributaries combine to form a roaring river toward the adoption of digital payments, including through innovation in postal accounts services.

The information revolution, rather than sounding the death knell of the postal system, can revitalize an historically important institution and open new opportunities to millions of individuals through digital financial services, such as digital payments.

KEY TAKEAWAYS

In the Asia-Pacific region, there are tremendous opportunities:

- With this population – its current size, projected stunning growth, resulting global dominance, women, youth, tech savvy and interest
- In the transition from cash to digital payments
- To use existing postal accounts and post office advantages to build financial inclusion through digital payments

Keywords: Asia-Pacific, postal account, middle class, digital payments, Bangladesh



INTRODUCTION

In the Asia-Pacific region, underbanked individuals are overly reliant on cash and would benefit from more ability to make digital payments. Postal accounts offer a sound path to digital inclusion for underbanked individuals. They have a long history throughout the world, including in the Asia-Pacific. Post offices have a ubiquitous physical presence. Postal accounts are associated with their longevity, familiarity, and trust. Asia-Pacific nations and their large, rapidly rising middle class can take advantage of these factors to accelerate financial inclusion via digital payments. The postal account system is ripe for modernization to meet 21st-century challenges.

The middle class is growing rapidly in the Asia-Pacific region, projected to be 3.5 billion by 2030. Existing postal infrastructure and the compelling facts of the dominant demographics and trends – a primed population that is expanding, underbanked, and keen to participate in the digital economy – combine to produce an opportunity to provide an accessible on-ramp to digital payments and more financial inclusion.

Post offices have a long history as portals for financial inclusion through postal accounts. They are information hubs with many characteristics that make them especially well-suited to connect underbanked individuals,

especially women, with digital payments.

Innovation in digital payments and financial services is essential. But, to succeed, there must be a fertile bed for uptake, such as financial literacy and trust in the services and the institutions that provide them.

THE ASIA-PACIFIC MIDDLE CLASS

Lives on \$10.01 – \$20 per day

There is a generally accepted definition of the global middle class as beginning at \$10 per day per person in purchasing power parity. This paper will focus on the lower end of the middle-class, those living on \$10.01 – \$20 per day.¹

Will grow rapidly for the next several decades to dominate the global middle class

The middle class is growing rapidly in the Asia-Pacific region. This expansion contrasts with other world regions, where middle-class growth is slowing or stagnant. As of 2020, there were approximately two billion members of the Asian middle class, a number projected to grow to 3.5 billion by 2030.² The latter figure is a stunning percentage, indicating that the Asian middle class could make up more than 33% of the projected global population of nine to 10



Asia's overall population is greater than 50% of the world population and is expected to continue to grow through 2050.

billion by 2030.³ Asia's overall population is greater than 50% of the world population and is expected to continue to grow through 2050.

In addition to the influence of sheer size, the Asian-Pacific middle class is younger, engage earlier in traditional life milestones in developing countries, and are technology and trend interested and savvy.⁴

But, many are underbanked

Many in the Asia-Pacific middle class are underbanked individuals, especially women. They may have access to some limited financial services. Moving beyond access to more active use, including digital payments, can expand opportunities to better their lives beyond the limits of cash and immediate geographic location to a wider availability of goods and services, prices, and competition.

And heavily dependent on cash

Cash still functions as the predominant medium of exchange in the region. In such a diverse region, cash use differs widely, ranging, for example, from approximately 89% of all transactions in India to approximately 34% of all transactions in Korea.”⁶

Adding up to a big opportunity with this population

In sum, the Asia-Pacific middle class is bigger, younger, engages in traditional life milestones at a younger age, is tech and trend interested, and sophisticated. Its dynamism contrasts with stagnant and declining middle classes in developed countries. These trends are anticipated to continue for several decades.

As a result, in the coming years, the Asia-Pacific middle class will likely increasingly dominate in terms of their priorities, needs, and tastes as they make their economic and social imprints and companies try to win their money. All eyes will turn toward Asia-Pacific. Increasing digital inclusion, digital payments, and financial sophistication now will help foster and meet that eventuality.



“Vendors are seen selling taka notes, a common scene on the streets of Motijheel in Dhaka thanks to the popularity of cash in Bangladesh.”

Photo: STAR/FILE⁵

POSTAL ACCOUNTS: A TIME-HONORED ENTRY POINT TO FINANCIAL INCLUSION

Postal accounts have been vehicles for financial inclusion since 1861

Postal accounts have functioned as financial services gateways for lower-income and disenfranchised people since they were established in England in the mid-1800s. Individuals, such as women, who were not permitted to open an account in a bank, could set up a postal account and begin to participate in the financial system.

Through to the present day

Postal accounts have continued their early role of providing an access point to the financial system. “[C]ompared with formal financial institutions, Posts are more likely to provide accounts to individuals from financially vulnerable groups, such as the poor, less educated, and those outside the labour force.”⁷

In the fintech era, postal accounts are common all over the world and very much alive

Postal accounts are widespread throughout the world.

At the global level, out of a total adult population of approximately 5.4 billion people worldwide, 1.5 billion—or 28%—have access

to some form of financial service (remittances, government payments, insurance, current accounts, savings, etc.) through a postal operator (Ansón and Toledano 2010). Among these, 1 billion people—or 19% of the world’s adults—hold a current or savings account with a post.⁸ (Emphasis added.)

Moreover, postal accounts are more popular than other financial vehicles.

A recent survey of financial service provision by posts (perhaps the only international study on the topic at this time) estimates that about 1 billion people are banked through 51 postal operators across the world (Berthaud and Davico 2013). As the study points out, this is a much larger number than those banked through microfinance institutions (MFIs), co-operatives, insurance agents, mobile banking operators, or other non-bank financial institutions that have received more attention in the literature.”⁹ (Emphasis added.)

Postal accounts demonstrate continued vigor and even, in some places, a renaissance.¹⁰

Postal accounts are poised for an update, taking advantage of untapped potential for greater use, such as digital payments. They are backstopped by a formidable, amiable neighbor. A key element of their staying power is the context: the both highly local and inherently global post office.

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POST OFFICES

POST OFFICES PROVIDE A UNIQUE, ESSENTIAL, POWERFUL CONTEXT THAT SUPPORTS POSTAL ACCOUNTS

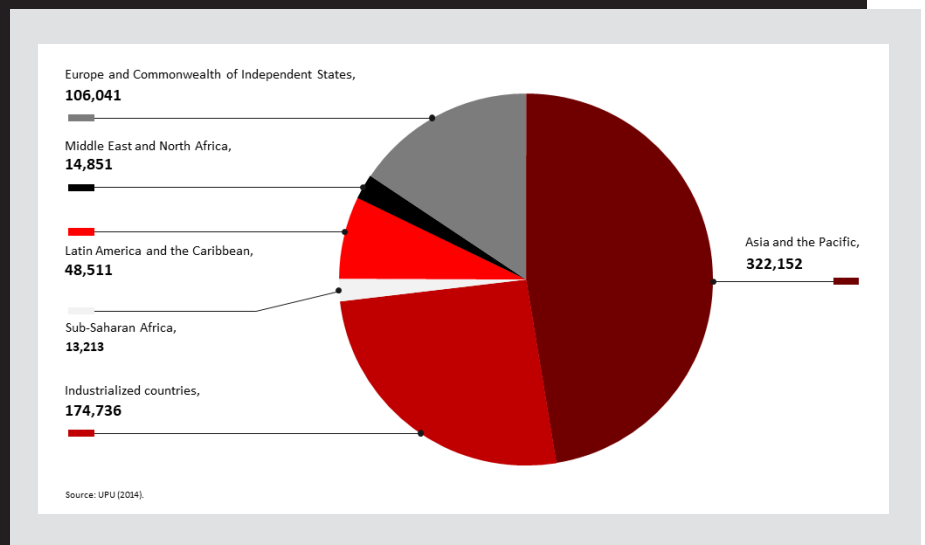
Post offices are eminently familiar background edifices in the heart of the community. They are accessible and dependable, open regularly, deliver a range of services consistently, and fulfill transactions, even if it means sending a package or message around the world, in full and as stated.

Post offices have many attributes. They:

- **Are information hubs.** From their earliest roles, post offices have served as conduits to enable information flows.
- **Have a ubiquitous, enduring physical presence.**

There are more than 600,000 post office branches worldwide. Half the world's post offices are in Asia.

Asia seems to be in a natural position to promote postal savings because of the region's extensive postal network and infrastructure that can serve as access points for the delivery of financial services. Around 48% of post offices globally—roughly around 320,000—are located in Asia. On average, every 72 square kilometers¹¹ is served by a post office branch, a coverage ratio far greater than other parts of the world.¹²



Compared with commercial bank branches, there are more post office branches spread more evenly in developing countries. There are more financial institutions (FIs) overall than post branches. But, FIs tend to be situated in more developed areas, with less presence in developing countries.¹⁴ Of all FIs, post offices are the second largest, making them, in combination with their other attributes, an attractive platform for financial inclusion.¹⁵

- **Are well-known, trusted parts of the community**, recognized from earliest childhood, generally with positive associations and **contribute to social capital**.
- **Are an existing destination for other services**, such as stamps or mailing. Individuals are already entering their establishments seeking postal services. This individual traffic presents potential customers for financial services.
- **Have a low thresholds to entry**. They are convenient, which reduces travel time and access complexity. Compared with a bank, which may sometimes seem more forbidding or with barriers to access, with perhaps a security guard at the entry and entrance only to those with legitimate business, anyone may walk into a post office.
- **Have a proven service delivery track record** of other postal services, which generally function.
- **Have existing, well-established, century-old, robust international networks** with other post offices around the world.
- **Participate in global e-commerce**, either as the initiating transit point or the "last mile" delivery vehicle for purchases.¹⁶
- **Often function as the sole or most visible representative of the national government**.

In conclusion, post offices are deeply embedded as part of/ in the community, with a robust infrastructure that operates hyper-locally and through long-term, established, international networks, providing global reach and permitting scale.

Along with these advantages, post offices face difficulties.

Post offices face **revenue challenges** due to declines in letter traffic.¹⁷ Postal mail decreases have been

somewhat offset by increased package shipment (origination and delivery) due to the rise in e-commerce,¹⁸ accelerated by the pandemic.¹⁹ The quest for new sources of revenue can be hampered by the **complacency of incumbency**. There are parallels with the national telecommunications authorities, lulled by their monopolies, that, while dismayed by decreases in revenue from the important source of voice telephony due to the rise of the internet and need to seek alternative revenue sources, were slow to pivot to embrace and benefit from new opportunities.

Protected by its status as a governmental institution, dominance, and incumbency, and, therefore, lacking incentive, post offices can exhibit a degree of complacency and move slowly to meet the information revolution. Again similar to the telecom authorities, post offices must reimagine their mission to identify additional and new revenue models. What is their value proposition in an increasingly digital environment?

At the same time, physical demands endure -- people have to be somewhere, goods have to go to a place, and services may need to occur or be delivered to a physical location. They already have in place, via postal accounts, a platform for expansion in digital financial systems. Post offices can augment current services offerings to offset declines in some traditional business lines. In addition to exploring possibly altogether new goods and services, it may be more or additionally effective to explore, revive, revert to, and modernize former business lines that had diminished or lapsed.

Post offices risk, through inertia, being overtaken by nimbler actors in financial services, thereby squandering the opportunities offered by their suite of existing advantages. They need to keep up with digital players and be as (or more) agile and responsive to people's expectations, focusing on using their strengths to enhance convenience and savings vis-à-vis other digital players.

Post offices have a strong portfolio of advantages in terms of enhancing postal accounts to provide more digital payments capacity to benefit individuals and themselves: They risk resting on the laurels of their incumbency and ceding the field to other digital financial service providers. There is **a big opportunity to use existing postal accounts and post office advantages to build financial inclusion through digital payments**. Posts are eager for new revenue sources as postal mail declines. Expanding postal accounts to embrace digital payments offers a solution.

It appears to be the greater failure of banks to include women in developing countries that explains the greater gender advantage of the posts in developing countries.

THE POSTAL ACCOUNTS / UNDERBANKED NEXUS

Postal accounts can build on a strong foundation, leveraging their legacy and continuing role of enabling marginalized populations and underbanked individuals to participate through postal accounts in the financial system. These groups already have more postal accounts than bank accounts. Post offices can meet the moment by making digital payments systems that are easy to access and use.

Underbanked individuals, especially women, have more postal accounts than bank accounts.

While richer, more urban countries tend to have higher shares of their populations who are banked, postal financial services are being offered in relatively poor, developing countries...This is a model that has therefore already been employed in relatively poor countries with, we will argue, some success with respect to the financial inclusion of women. This record thus further strengthens the case for the expansion of such services in more countries.²⁰

[P]ostal financial services are more inclusive of women than the FIs [financial institutions]. Mean female:male ratios are higher for posts than banks, and thus the post-bank gender gap ratio is thus greater than one on average...On average, the posts serve 1.27 times more women than men in developing and 1.21 times more women than men in developed countries. The highest female:male ratio at posts only is Bangladesh, where the post serves 5.5 times more women than men.²¹

Importantly, the post-FI gender gap ratio appears to be larger in developing countries.²²

[T]he FI-only ratio is significantly worse in developing countries...Thus, it appears to be the greater failure of banks to include women in developing countries that explains the greater gender advantage of the posts in developing countries.²³ (Emphasis added.)

The underbanked population includes not only individuals. Many MSMEs (micro, small, and medium enterprises) would also benefit from reducing the use of cash and increasing digital payments. Moreover, it would permit them potentially to expand their networks, doing business beyond the reach of cash transactions. The flip side of the coin of increasing digital payments by individuals is the places that accept them. Therefore, MSMEs should be assisted in accepting digital payments in place of cash.

POSTAL ACCOUNTS FOR DIGITAL PAYMENTS

Postal accounts can seize the opportunity to move from cash to digital payments, lessen cash dependency, address the shortcomings of cash, and facilitate digital payments.

Underbanked individuals rely more on cash transactions. Digital payments can address some of the shortcomings of cash. For example, cash is dirty, easily destroyed, expensive to produce and transport, and lacks the geographic reach of digital payments. Postal accounts can facilitate the transition from cash with access to digital payments and their uptake.

Digital payments need to be developed and implemented to preserve and then enhance the attributes of the post office and postal accounts previously enumerated. If diminished or lost, they will be laborious or impossible to regain.

Post offices and their postal accounts are assets to the underbanked population, with continued relevance into the future. There is a lot of commerce at stake, innovation to unleash, and achievement potential for users, post offices, and financial partners. Digital payments offer opportunities for post offices to reimagine and reinvigorate their mission and value proposition while providing financial stability and economic support to a vulnerable population.

CASE STUDY: BANGLADESH

BEFORE TURNING TO BANGLADESH, RECENT EFFORTS IN INDIA PROVIDE ADDITIONAL INFORMATION AND CONTEXT.

India

In 2018, India launched the India Post Payments Bank (IPPB), building upon the attributes of India Post to foster financial inclusion through digital payments banking to underbanked and unbanked individuals. By January 2022, the initiative had enrolled 50 million customers. The IPPB has had particular success with women, who comprise 48% of total account holders. Similarly, youth uptake of the accounts has resulted in 41% of account holders between 18 and 35 years old. In this model, the IPPB is 100% government-owned and was set up under the Department of Posts, Ministry of Communication.²⁴

Bangladesh

Bangladesh offers an interesting example. The government just issued a national plan for financial inclusion. The plan includes the Bangladesh Post Office (BPO). Women are more likely to have postal accounts than men. These elements indicate readiness for increased evolution in digital payments through postal accounts. But, the national plan could have gone further in contemplating BPO's role. Additional steps should be taken to build digital payments through postal accounts to influence more women to participate.

Bangladesh has a population of 170 million.²⁵ It is the 10th most densely populated nation.²⁶ As of 2020, approximately 38.18% of Bangladesh's population lived in urban areas.²⁷ Forty-five percent of the population is between 15 and 34 years old.²⁸ The government of Bangladesh wants to use these characteristics as strengths, benefitting from the population density and

high youth population. The literacy rate is 73.9%.²⁹ The recent Bangladesh National Financial Inclusion Strategy (NFIS)³⁰ noted, "The young, tech-savvy and increasingly educated populations provide a growing customer base for new financial services."³¹

Bangladesh faces a series of hinge moments, where possibilities open up, leverage is available, and greater progress becomes possible. Bangladesh is in transition, seeking to move from the Least Developed Country status toward Developing Country by 2026.³² Financial inclusion has been identified as a key enabler in development.³³ The composition of the labor force is also evolving, which incentivizes more financial inclusion and digital payments.³⁴

Bangladesh issued its first National Financial Inclusion Strategy (NFIS)³⁵ in 2021, which is intended for the five-year period 2021 – 2026. Its subtitle, "Journey towards Sustainable and Impactful Financial Inclusion through Digitization and Innovation," emphasizes that digitization and innovation are the two through-lines of the five-year financial inclusion plan. Women were identified as one of the five cross-cutting issues in the development of the NFIS.³⁶

There is a lot of room to improve financial inclusion. The NFIS stated:

For sustaining the inclusion initiatives in the financial landscape, there are still miles to go for widening the access and increasing the usage of women and youth in financial services within Bangladesh. To move ahead from these lessons, finding the right model or approach for the

country is the way to ensure access to financial services for all population segments.³⁷

The NFIS noted that the November 2020 International Monetary Fund Financial Access Survey (FAS) published by IMF in November 2020 demonstrated the ability of Bangladesh to meet the South Asian average for many financial inclusion parameters, but that those indicators are well below the global criteria.³⁸

The impediments to financial inclusion detailed in the NFIS include unavailability or distance of banks, administrative barriers of opening hours, paperwork requirements, services that do not match needs, and low financial literacy.³⁹ However, as described above, post offices and postal accounts can help overcome some of these constraints.

The goals and action items of the NFIS include the development of services and policies specifically designed for and directed to women and youth.⁴⁰ In support, a widespread national financial literacy initiative is underway. In 2017, 50% of adults had an account, with a differential of 29% between men and women holding an account.⁴¹ Moreover, there was a gap between having an account and using digital payments.

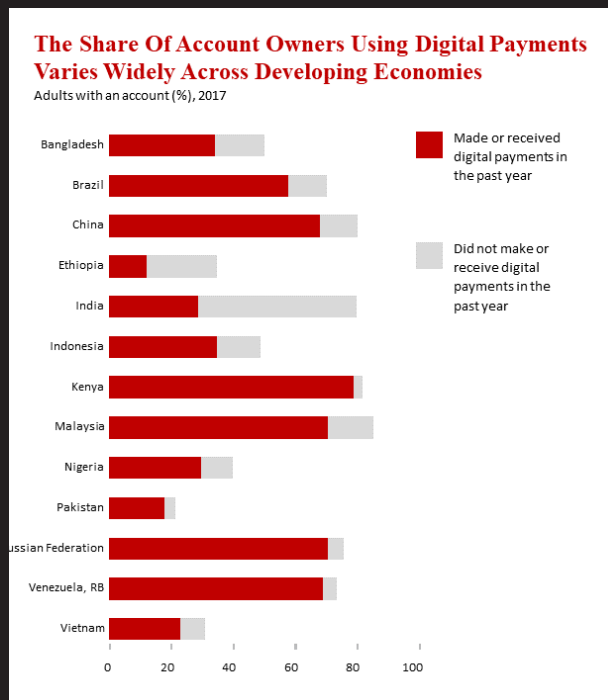
The Bangladesh Post Office already plays a role in financial inclusion. There are 9,986 BPO branches in a large, widespread system that already offers a range of financial services.⁴² It is ripe for further expansion of digital payments to underbanked individuals. NFIS has plans to reinforce BPO's role as a financial service provider, including to benefit from its hyper-locality and physical presence.

While Bangladesh has made progress on using the post offices and postal financial services, both to reinforce their roles in the information age and provide financial services, there remain many additional opportunities to bring new users on board and offer more and enhanced digital payment services.

In 2021, an expert in the economy of Bangladesh observed, "Despite the remarkable progress Bangladesh has made, in particular its 15-year gallop, the tale has by no means ended. Bangladesh's successful trajectory from here on is not a forgone conclusion."⁴³

Bangladesh has a newly-minted national plan for financial inclusion. The NFIS provides a strong, up-to-date, comprehensive review of the state of play and options moving forward for financial inclusion. The NFIS explicitly included the Bangladesh Post Office in its future digital inclusion plans. But it did not go far enough. More could be done to profit from BPO's possibilities related to digital payments.

Now is the time for nations to learn from others' experiences and to revisit their post offices and postal accounts, with their strong stores of distributed, local infrastructure, social capital and trust, and governmental presence, to assess how they might best profit from these existing assets to build financial inclusion through digital payments.



Source: Global Findex database.

Post offices today continue their enabling role to provide an accessible, trusted entry point for digital payments to millions of underbanked individuals in the Asia-Pacific region.

CONCLUSION

Just as the post office in England enabled women, barred from the English banking system, to hold postal accounts and participate in the financial system, so can post offices today continue their enabling role to provide an accessible, trusted entry point for digital payments to millions of underbanked individuals in the Asia-Pacific region, permitting transition from the limitations of cash payments.

While the focus has been largely on urban populations and environments, many of the observations, lessons, and recommendations are also relevant for rural and remote populations.

There is a window of time to seize this opportunity. In addition to the benefits for individuals and post offices, these efforts will further equity, sustainability, and governance (ESG) achievements by financial partners, as well as the Sustainable Development Goals.

The information revolution, rather than heralding the demise of the postal system, can revitalize an historically important institution and unlock new opportunities for millions of individuals through digital financial services, such as digital payments.

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