# Reviewing the Role of Namibia Post Savings Bank (NSB) in Broadening Access to Financial Services to the Poor

## Table of Contents

- Problem Statement.......................................................................................................... 3
- Background..................................................................................................................... 3
- Analysis........................................................................................................................... 4
- The Status Quo of Nampost Savings Bank ................................................................. 5
- Options............................................................................................................................ 7
  - Option 1 ....................................................................................................................... 7
  - Option 2 ....................................................................................................................... 7
- Recommendations .......................................................................................................... 7
- References...................................................................................................................... 8
**Problem Statement**

1. There is a lack of banking institutions in the country providing microfinance to microenterprises and individuals. Consequently, the majority of the lower income groups (i.e. the micro and small enterprises and poor people of the population) are either excluded from banking services or do not have access to a wider range of retail banking products.

2. Existing microfinance institutions have a limited geographic presence. The one microfinance bank recently established only services the northern part of the country.

3. Namibia is forfeiting a valuable opportunity to expand the reach of microfinance institutions. Post offices are essential for social and financial inclusion, particularly in developing and emerging countries. According to Financial Access Study 2009, it is estimated that over 70% of countries use post offices to deliver financial services, taking advantage of low operational costs associated with this infrastructure to enhance financial outreach.

4. This memo proposes a review of the role that the Namibia Post Savings Bank (NSB) can play in broadening access to financial services for the poor. This entails the provision of microfinance through Post Office Savings Bank as a commercially viable bank which can achieve both (1) **sustainability** and (2) **greater outreach** because it **has more than 120 branches compared to a combined total of only 100 branches for commercial banks**.

**Background**

5. Worldwide, microfinance is being considered among the most visible innovations in anti-poverty policy. In the three decades since the first loan of microcredit was given to a group of Bangladeshi women, the number of microcredit borrowers has increased dramatically. The majority of the people had no access to credit from banks before microcredit became available, and when they needed to borrow to pay for an illness, to grow a business, or to fix a roof, most people would go to money-lenders and pay exorbitant rates. While this is still the case in many countries, nowadays people can also borrow from microfinance institutions (MFIs) at significantly lower rates.

6. Many other credit delivery channels to the poor had been attempted before in various countries. However, very few seem to have worked; for example, state-run banks in some countries collapsed in the face of widespread corruption and defaults. These days, however, there are many microcredit institutions in various countries that are led by dynamic entrepreneurs who have mastered quality service delivery on a large scale, such as those found in some parts of Asia, for example in Malaysia and India. These institutions have at the same time managed to find ways to become financially sustainable and to keep growing fast. This evolution of MFIs is a welcome development because of the relatively positive impact that it can have on low income people and
micro, small and medium enterprises (MSMEs) through accessing finance at lower rates.

7. The world has also seen the reorganization of post offices, viewed in most instances as viable financial delivery channels. Over the past two decades, many postal savings institutions have undergone institutional reorganization, moving away from being a part of the post offices’ operations. These changes allow for the expansion of the scope of postal financial services, with some postal savings institutions embracing new activities and transforming into fully-fledged savings and retail banks. Clearly, further developing the potential of postal banking would provide more financial services to more people and businesses currently unserved or underserved given the wider branch networks associated with post offices.

8. In Namibia, a Financial Inclusion Council, chaired by the Prime Minister, includes ministries that have financing programs aimed at vulnerable groups. The purpose of the Council is to create a platform for coordination of policy directions as well as to establish an institutional framework for monitoring and evaluation. Assisting the Council is an Advisory Body made up of the Central Bank, the non-bank financial institutions, regulator, all development finance institutions representative of the banking industry, private sector, and Non-Governmental Organizations.

9. In Namibia, the “Financial Sector Development Strategy 2021” is being developed and one of the key goals of the strategy is financial inclusion. Specifically, the strategy aims to broaden access to banking services from 51 to 80 percent of the population (FinScope survey 2007). While there are various strategies to increase financial inclusion that are being contemplated including an amendment to the Banking Institutions Act to broaden the definition of banks by recognizing the “Tier II banks” that are taking microfinance deposits. It is thus important to consider reviewing the Namibia Post Savings Bank’s mandate given the unique role it can play. The Advisory Body is chaired by the Central Bank Governor. Being the custodian of the Post Office, the Ministry of Information Communication Technology is also a member to the Council.

Analysis

10. Namibia enjoys a well developed and sophisticated banking system made up of four commercial banks. Complementing the commercial banks is the first ever deposit-taking microfinance bank that was licensed in 2010. The microfinance bank is operating on the Grameen Bank model, which uses group lending to target poor people without collateral. This new microfinance institution only maintains a presence in the northern part of the country consisting of three locations.

11. Commercial banks, on the other hand, have responded positively to the government call to extend their service to pre-urban areas with a notable increase in their branch networks located in mainly urban centers in all political regions of the country. Despite this expansion, the FinScope Survey 2007 indicated that many lower income groups still lack access to financial services.
12. This access gap could partly be explained by commercial banks’ reluctance to expose themselves to the perceived risks and cost of administering microloans. Thus, the “Financial Sector Strategy” is looking at various strategies aimed at increasing both the supply and demand of financial services by the poor and lower income groups. The role of commercial banks is part and parcel of this strategy.

13. Taking a cue from Malaysia, a country that is ranked number one (1) in the world in terms of access to finance (World Bank Doing Business Report), commercial banks can play a significant role if they explore what is referred to as “blue ocean opportunities” in providing banking services to the poor and lower income groups and make a profit from those services. According to Bank Negara, in 2010 a survey carried out in Malaysia revealed that over 80% of credit to SMEs, including microenterprises, was provided by commercial banks, underscoring their indispensable role. However, it should also be noted that it is government intervention through targeted regulatory actions and targeted sector lending and advocacy that encouraged commercial banks to increase lending to lower income groups.

14. To complement the role of commercial banks, the Malaysian government, through the National SMEs Development Council (NSDC), developed a framework for microfinance, transforming Bank Simpanan Nasional (BSN) into a specialized microfinance institution with a mandate to provide microfinance to microenterprises and individuals operating a business to fulfill the high demand for microenterprise financing. The key objective of transforming BSN is to operate on a sustainable basis and adhere to prudent banking practices.

15. During the years 2003 to 2005, BSN was only involved in microcredit, which simply revolved around giving out uncollateralized small loans up to about USD 6000. However, with the Government push in the SME sector, the role of BSN has been enhanced to become a provider of microfinance, which includes savings and advisory elements. The recipients are targeted industry players and the maximum loan size is approximately USD 15,000. To date BSN has more than 373 outlets, which act as distribution centers where access to microfinance is made available.

16. The above analysis clearly shows the need to increase the provision of microfinance services in Namibia. The key question, however, is whether Namibia shouldn’t also review the role of NSB by making it a full-fledged microfinance bank, providing a wide variety of retail banking products, just like the successful BSN in Malaysia. The section below outlines some of the relevant issues that need to be taken note of as we consider NSB for that role.

**The Status Quo of Nampost Savings Bank**

17. The Namibia Post Savings Bank (NPSB) is a department within the Post Office offering traditional savings products. In 2007, Namibia Post (NamPost) entered into a 50/50 percent joint venture with internationally known Net 1 Universal Electronic
Payment System (U.E.P.S.) in order to offer a viable and affordable financial solution in Namibia, especially for the vast majority of the country's non-banking citizens. The “Smart Card,” introduced by NamPost, is a chip-based debit card with multi-functional wallet allocations. Smart Switch Namibia provides smart cards and point-of-sale devices to more than 120 NamPost Savings Bank branches in the country. It effectively replaced the old dark-blue savings books of their clients.

18. While the “Smart Card” has so far been successful in terms of roll-out, this viability is hindered by the fact that the system operates within a “closed loop” environment. In other words, NamPost clients cannot make use of their cards at point-of-sale devices operated by commercial banks. Consequently, NamPost has been exploring the possibility of gaining access to the national payment system.

19. In addition to the “Smart Card” development, NamPost expanded its business by venturing into microfinance credit through a newly established wholly owned subsidiary company. This is because the Post and Telecommunication Act of 1992 (the Establishment Act), limits NamPost Savings Bank (NPSB) to offer savings deposits services but not to provide credit. That being the case, there is a need to review NSB’s mandate to give it the power to offer full retail banking services with a special focus on microfinance products. The services should include granting of micro loans and advances and payment services to its micro and small enterprises.

20. The transformation of NSB into a full-fledged retail bank can be achieved by granting it a full banking license. On the other hand, in terms of the Banking Institutions Act of 1998 (BIA) as amended, NSB is exempted from the application of the law regulating deposit- taking institutions. However, the law also makes provision for the Minister of Finance to lift the exemption by issuing a notice in the Government Gazette upon the recommendation of the Central Bank. This was done in July 2011 and NBS now falls under the regulatory powers of the central bank. Going forward, the Central Bank will come up with differentiated regulations taking into account that NBS is still a department in the Post Office that is not allowed to grant credit.

21. Therefore, to make NSB a full-fledged bank it is important that the reform is carried out within the framework of a broad postal sector reform agenda. This means adequate policies, enabling legislative and regulatory frameworks addressing governance issues, and restructuring of core postal services should be undertaken simultaneously so that the Post Office remains a financially sustainable.

22. Worth noting is that in a number of countries where a payment function (postal checking services) has been established to complement the postal savings function the trend is to integrate both under the same operational units sometimes merged into a single entity that forms the postal bank. The rationale of these developments is twofold: (i) savings and payment services are basic functions for a bank and (ii) valuable synergies can be harnessed in this process. In the case of Nampost, to ensure access to the national payment system, it is necessary that the payment function becomes an integral part of the proposed new National Savings Bank so that the new entity can offer a wide range of retail banking products including the special focus on micro enterprises.
Options

Option 1

23. With a view to optimizing the use of the branch network (120 across the country) and to strengthen the efficiency and quality of the services offered to the public, make the National Savings Bank a full-fledged retail bank participating in the payment system. The practical implementation of this option is relatively easy, given the political will demonstrated in the formation of the Financial Inclusion Council that brings together all stakeholders with a view to ensuring financial inclusion policy coordination.

24. Admittedly, in considering this option there is a need to strengthen the human capital as managing a full-fledged retail bank requires a certain set of skills. Concomitantly, it also requires a paradigm shift in terms of the professional working culture.

25. The other issue worth mentioning is that under this option since NSB becomes a full-fledged retail bank (with a separate board of directors from the holding company – NamPost Office), the Bank of Namibia as the regulator of banking institutions will provide a better guarantee of diligent corporate governance.

Option 2

26. Keep the mandate of the NamPost Savings Bank unchanged and encourage the formation of joint ventures with commercial banks. The status quo means that the Post Office will continue to have its two subsidiaries offering microfinance loans and “Smart Card” technology. This means foregoing the opportunity and synergies offered by bringing the savings unit, lending, and the payments under a single entity.

27. On the other hand, access to payment systems in terms of clearing and settlement systems shall remain an obstacle to the growth of the business in meeting the changing demands of the clients and may remain uncompetitive in product offerings. The oversight by the Central bank, while possible through a lifting of the exemption from the Banking Institutions Act of 1998 (as amended) by the Minister of Finance, through a Notice in the Government Gazette, it is still likely to pose regulatory challenges. This is because the central bank has to come up with differentiated regulations that could be difficult to implement and enforce given the obscurity of business lines and governance challenges that come with having the Savings Bank as a department within the Post Office with no separate board.

Recommendations

28. Option 1 should be implemented as it is most likely to deliver financial services to the unbanked and under-banked sectors of the population. It is recommended that:

- Namibia Post Savings Bank should be transformed into a full-fledged savings and retail bank under the central bank supervisory and regulatory authority. This is clear
given its unique positioning in terms of geographical presence in all the corners of the country. With the recent establishment of the Financial Inclusion Council, the stage is set for key stakeholders’ agreement on this initiative.

References

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