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OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

International Paper Money Order Service

Audit Report

Report Number
FT-AR-16-007

July 5, 2016

Print

OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Highlights

The U.S. is the number one sender of international money transfers capturing 22 percent of the market.

Background

The U.S. Postal Service has agreements with 27 foreign countries to accept and cash their money orders in the U.S. In return, those countries accept Postal Service money orders issued to recipients in their countries. This international paper money order (IPMO) service provides customers a means to send funds abroad.

IPMO sales have declined drastically, from $60 million in fiscal year (FY) 2010 to $34 million in FY 2015. In FY 2015, the program generated only $500,000 in revenue from money order fees.

Worldwide, the international money transfer market grew between 3 percent and 11 percent annually from 2010 to 2014. The U.S. is the number one sender of international money transfers capturing 22 percent of the market. U.S. residents sent $110 billion in money transfers to other countries in 2010 and $130 billion in 2014. In FY 2014, the Postal Service sold just $38 million worth of IPMOs, which represented only 0.03 percent of the U.S. outbound international money transfer market.

The Postal Service's domestic money orders program faces challenges similar to those of the IPMO program. In the wake of alternatives from other providers and broad shifts toward electronic forms of payment, domestic money order sales plunged 60 percent from their peak of 233 million in FY 2000 to 93 million in FY 2015.

Our objective was to evaluate the Postal Service's IPMO program and identify opportunities for improvements and revenue growth.

What The OIG Found

The Postal Service's IPMO program is not well-suited for today's fast-paced environment as new technologies enable customers to send and receive money faster through electronic channels. These faster and more convenient alternatives contributed to a steep decline in paper money order sales in recent years. If the decline continues, we project revenue will be about $151,000 in FY 2020, a relatively insignificant amount for Postal Service operations.

Demand for electronic international money transfer services is strong worldwide. While the Postal Service currently provides electronic international money transfer service from the U.S. to 10 Latin American countries, its volume has steeply declined in recent years. In FY 2014, the program transferred $13 million, which was only 0.01 percent of the U.S. outbound remittance market, and it generated less than $460,000 in revenue. If the declining trend continues, we estimate the program will not generate any revenue by FY 2019. Our analysis shows that if the Postal Service could increase its market share from 0.25 percent in the first year to 3 percent in year 5 by improving and expanding its service, it could generate an average revenue of $89.2 million annually over the 5-year period.

The Postal Service has also experienced large declines in domestic money orders sales. However, we estimate that by adding digital technologies along with active strategic management and marketing, the Postal Service would gain an average of $30.2 million in additional profit annually over the 5-year period.

What The OIG Recommended

We recommended management remake the international paper money order program into an enhanced electronic international money transfer services program and improve the domestic money order program by adding digital technologies along with strategic management and marketing. In addition, we recommended management assign a project manager to oversee revenue growth opportunities for money transfer services and products.

Transmittal Letter

Office of Inspector General
United States Postal Service

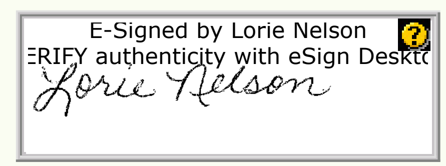
July 5, 2016

MEMORANDUM FOR: MICHAEL J. AMATO
VICE PRESIDENT, ENGINEERING SYSTEMS

GARY C. REBLIN
VICE PRESIDENT, NEW PRODUCTS AND INNOVATION

KELLY M. SIGMON
VICE PRESIDENT, RETAIL AND
CUSTOMER SERVICE OPERATIONS

DONALD W. ROSS
ACTING VICE PRESIDENT, GLOBAL BUSINESS



for
FROM: John E. Cihota
Deputy Assistant Inspector General
for Finance, Pricing, and Investments

SUBJECT: International Paper Money Order Service
(Report Number FT-AR-16-007)

This report presents the results of our audit of the international paper money order service (Project Number 16BR002FT000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Lorie Nelson, director, Finance or me at 703-248-2100.

Attachment

cc: Corporate and Audit Response Management

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Findings

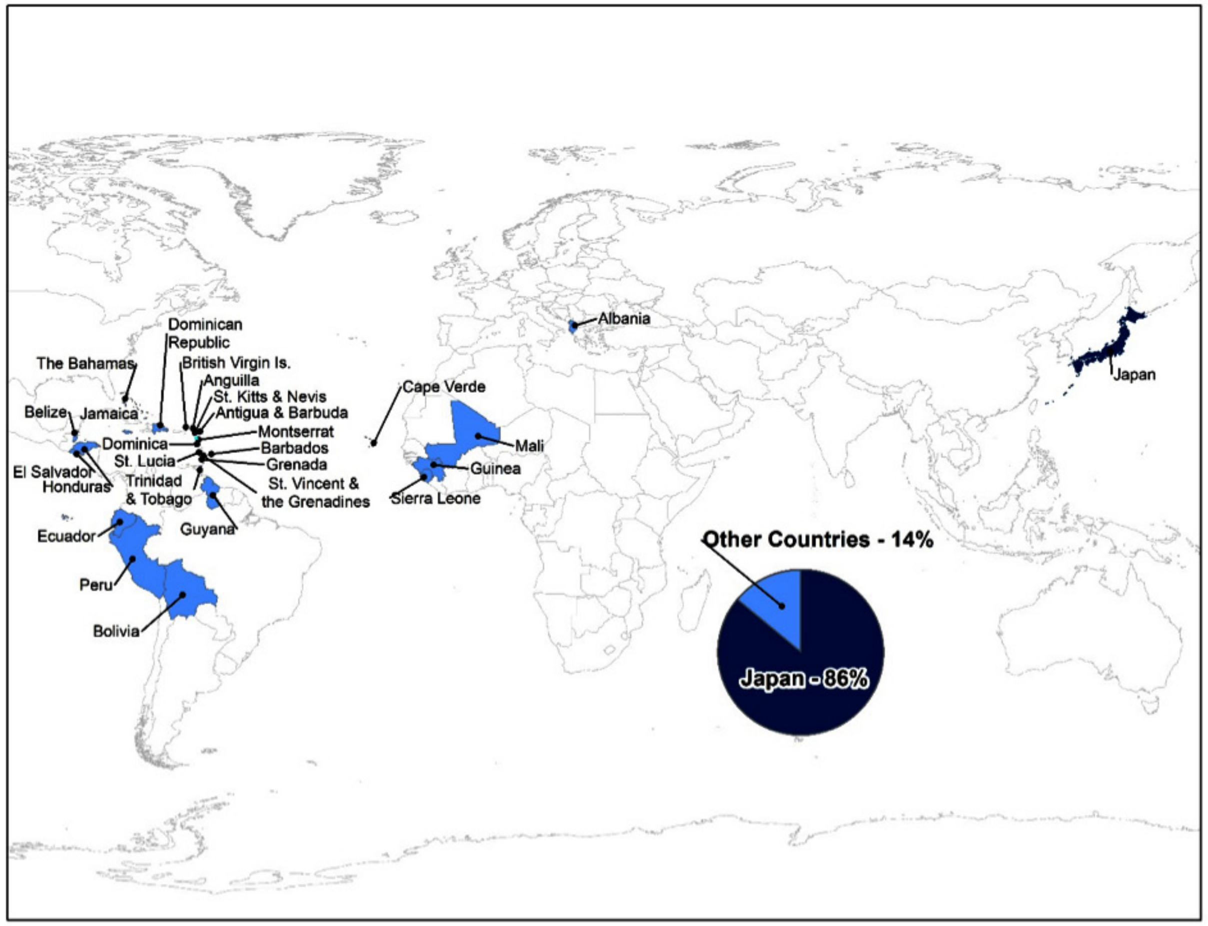
Our objective was to evaluate the IPMO program and identify opportunities for improvements and revenue growth.

Introduction

This report presents the results of our self-initiated audit of the U.S. Postal Service's international paper money order (IPMO) service (Project Number 16BR002FT000). Our objective was to evaluate the IPMO program and identify opportunities for improvements and revenue growth. See Appendix A for additional information about this audit.

The Postal Service has agreements with 27 foreign countries to provide the IPMO service (see Figure 1). The Postal Service accepts and cashes IPMOs issued by foreign posts. In return, the foreign posts accept and cash Postal Service IPMOs issued to recipients in their countries. This program provides customers a means to send funds abroad.

Figure 1. Countries with IPMO Service[1]



Source: U.S. Postal Service Office of Inspector General (OIG) analysis based on Postal Service data.

While the global and U.S. remittance[2] markets are growing at a healthy pace, the Postal Service's sales of IPMOs have declined consistently and drastically in recent years, and it has a very small share of the market. The Postal Service sold $38 million worth of IPMOs in FY 2014, which represented only 0.03 percent of the U.S. outbound international remittance market. See Table 1 below for details.

1 Volume based on fiscal year (FY) 2015 data.
2 The term remittance in this report refers to transfers made by consumers from the U.S. to other countries. The World Bank uses the term remittance while the Postal Service and service providers use the term money transfer. We use these two terms interchangeably.

Demand for electronic international money transfer services is growing steadily worldwide. The Postal Service should take advantage of this opportunity to expand its electronic international money transfer business and increase its revenue from the service.

Table 1. International Remittance Volume and Growth (Amounts in millions)

	2010	2011	2012	2013	2014
World remittance	**$463,599**	**$514,248**	**$528,769**	**$557,083**	**$579,809**
Percent growth		11%	3%	5%	4%
U.S. outbound remittance	**$109,848**	**$120,178**	**$123,273**	**$123,472**	**$129,957**
Percent growth		9%	3%	0%	5%
Postal Service IPMO sales	**$60**	**$55**	**$47**	**$42**	**$38**
Postal Service share of U.S. outbound market	0.05%	0.05%	0.04%	0.03%	0.03%

Source: World Bank[3] data and Postal Service data.[4]

The Postal Service's domestic money orders program faces challenges similar to those of the IPMO program. In the wake of alternatives from other providers and broad shifts toward electronic forms of payment, the number of domestic money orders sold plunged 60 percent from their peak of 233 million in FY 2000 to 93 million in FY 2015. The OIG recently issued a research paper[5] discussing the decline in domestic money order sales and discussing opportunities to increase revenue by digitalizing the service, along with active strategic management and marketing.

Summary

The Postal Service's IPMO program is not well-suited for today's fast-paced environment as new technologies allow customers to send and receive money faster through electronic channels. These faster and more convenient alternatives contributed to a steep decline in paper money order sales in recent years. In FY 2015, the program generated only $500,000 in revenue from money order fees. If the decline continues, we project revenue will be about $151,000 in FY 2020, a relatively insignificant amount of revenue for the Postal Service.

Demand for electronic international money transfer services is growing steadily worldwide. The Postal Service should take advantage of this opportunity to expand its electronic international money transfer business and increase its revenue from the service. Our analysis shows that if the Postal Service could increase its market share from 0.25 percent in the first year to 3 percent in year 5 by improving and expanding its service, it could generate an average revenue of $89.2 million annually over the 5-year period.

The Postal Service has also experienced large declines in domestic money order sales. However, the OIG estimates that by adding digital technologies, along with active strategic management and marketing, the Postal Service would gain an average of $30.2 million in additional profit annually over the 5-year period.[6]

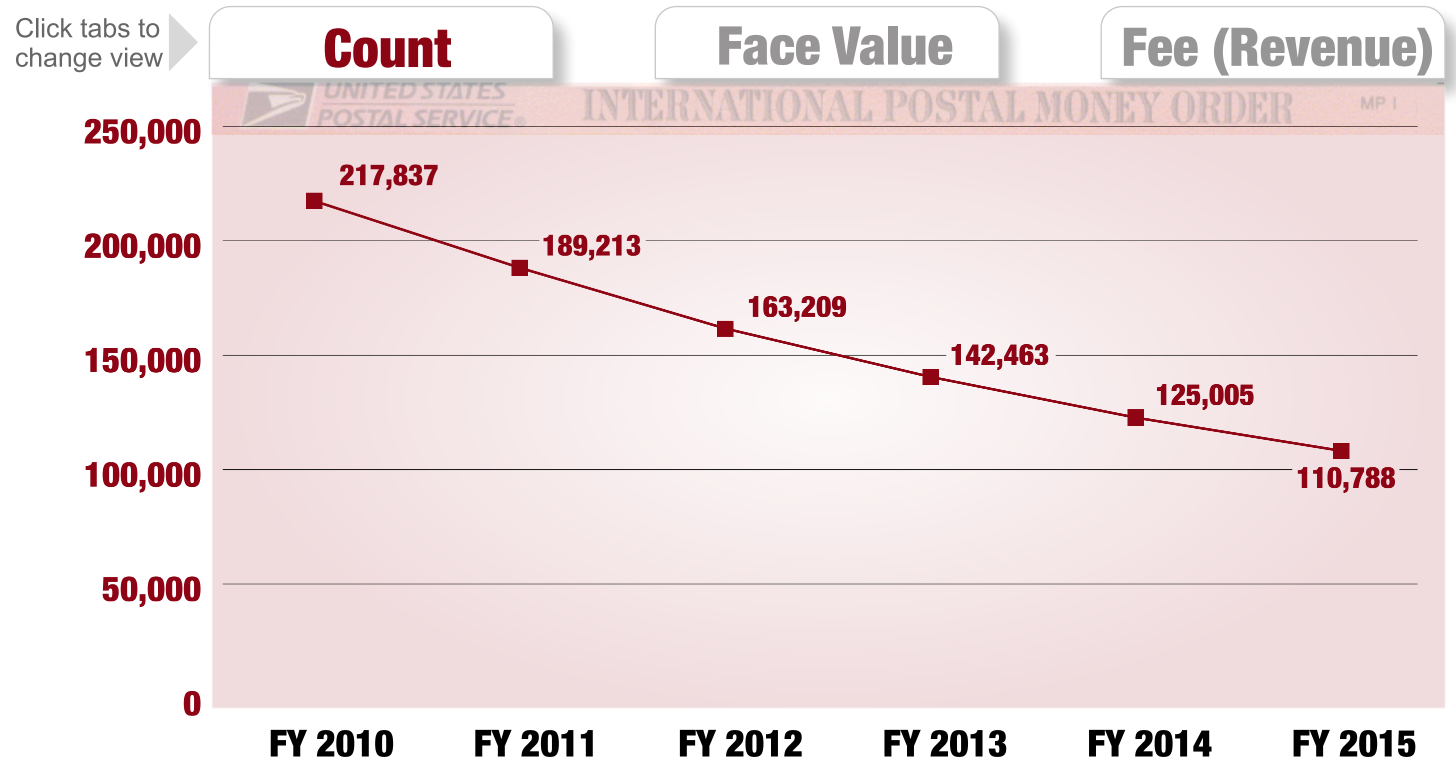
3 The World Bank had remittance data available on its website for calendar year (CY) 2010 through CY 2014 at the time of our fieldwork. Data for CY 2015 was not yet available.
4 Postal Service data are in fiscal years (October 1 through September 30) while World Bank data are in calendar years. The yearly amount may not be significantly different. We use the Postal Service's fiscal year data and World Bank's calendar year data in the analyses.
5 Modernizing the Postal Money Order (Report Number RARC-WP-16-007, April 4, 2016).
6 Report Number RARC-WP-16-007, April 4, 2016.

Customers are losing interest in IPMOs, as evidenced by a consistent and significant decline in sales in recent years.

International Paper Money Orders

The Postal Service's IPMO program is not well-suited for today's fast-paced environment as new technologies enable customers to send and receive money faster through electronic channels. Customers are losing interest in IPMOs, as evidenced by a consistent and significant decline in sales in recent years (see Table 2).

Table 2. International Paper Money Order Sales



% Change from Previous Year

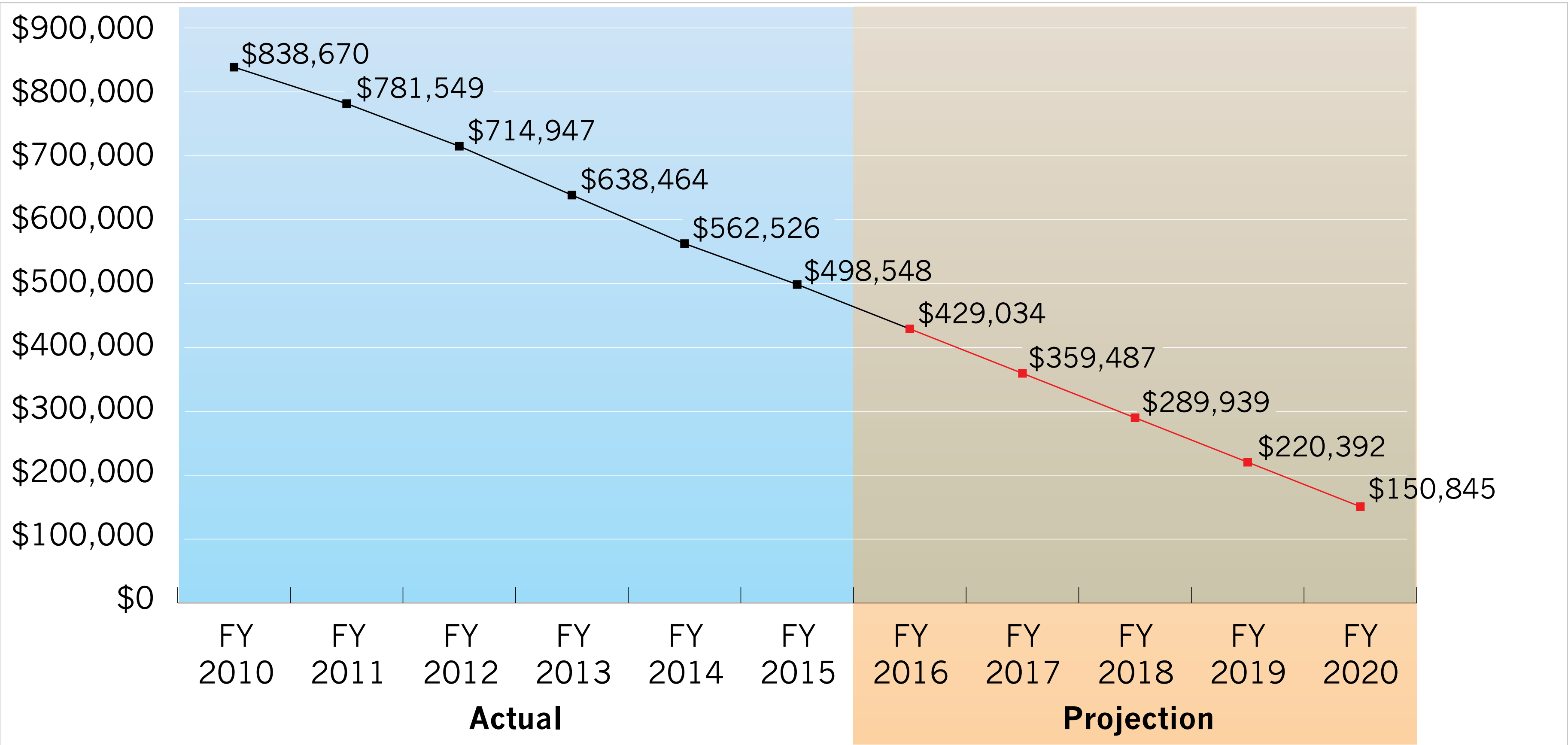
Count	-17.44%	-13.14%	-13.74%	-12.71%	-12.25%	-11.37%

Source: Postal Service data provided by St. Louis Accounting Services.

In FY 2015, the program generated only about $500,000 in revenue from money order fees. If sales continue to decline, we project revenue from money order fees[7] will be about $150,800 in FY 2020, which is a relatively insignificant amount of revenue for Postal Service operations. See Figure 2 for details.

7 The main source of revenue is money order fees, currently $4.75 per money order. The Postal Service also earns a small amount of interest from the money float. In addition, it claims revenue on the money orders sold to customers but not cashed after 2 years, known as escheatment revenue.

Figure 2. IPMO Fee Revenue: Actual and Projected FY 2010 through FY 2020



Source: OIG analysis.

IPMOs face strong competition from electronic money transfer services. Paper money orders are less appealing to customers because:

- Price may not be competitive when factoring in the cost of mailing the money order to a foreign destination. Customers pay $4.75 for an international money order plus the international mailing cost, which starts at $1.15 and can escalate significantly.[8] Conversely, fees for electronic international money transfer services become less expensive[9] as more companies join the business.
- The money transfer is slower. It takes days or weeks for the recipient in a foreign country to receive a mailed money order, while funds usually reach the recipients within an hour to 5 days for typical electronic money transfer services.
- The replacement check process is longer. When the Postal Service determines that a money order has not been cashed, the customer must wait 6 months from the issuance date of the original money order to get a replacement check.[10]

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8 Costs and delivery times vary depending on the international mailing options customers choose. For example, Priority Mail Express International® ($40.95 and up, delivery within 3 to 5 business days), Priority Mail International® ($23.95 and up, delivery within 6 to 10 business days), First-Class Package International Service ($9.50, up to $400 in value), and First-Class Mail International® ($1.15, delivery times vary by destination).

9 For example, to transfer $500 to India, the customer pays an average fee of $5 through the bank or $5.50 through money transfer companies. This is less than what a customer would pay to buy and mail an international money order to a foreign destination.

10 Refund process is shorter with electronic money transfer companies. For example, MoneyGram® international transfers may generally be canceled within 30 minutes after the customer has made the payment.

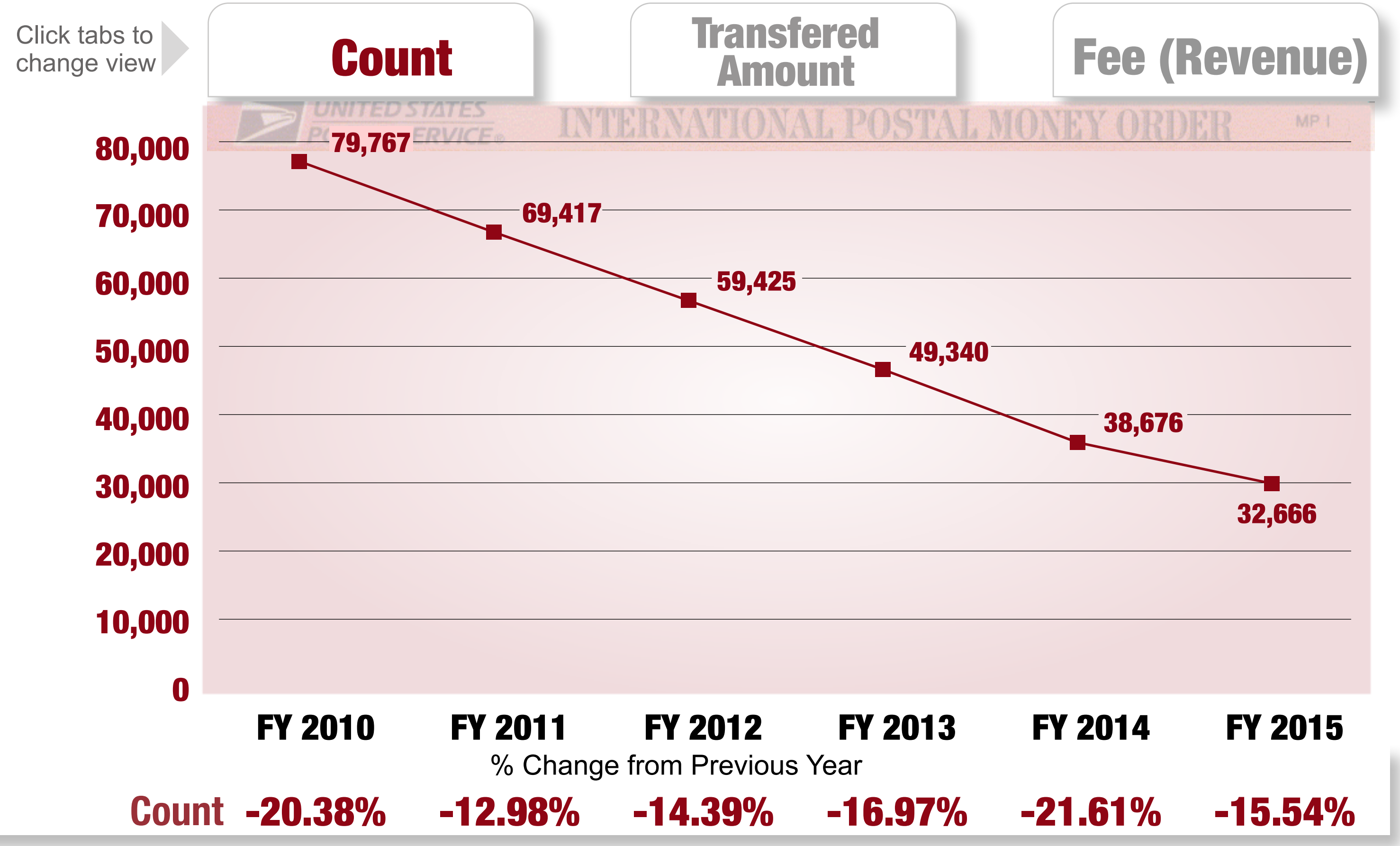
The Postal Service should take advantage of this opportunity to expand its electronic international money transfer business and increase its revenue from the service.

Electronic International Money Transfer

Demand for electronic international money transfer service is growing worldwide. The market grew between 3 percent and 11 percent annually in 2010-2014, from $464 billion in 2010 to $580 billion in 2014. Consumers in the U.S. send the most international money transfers to other countries, up from $110 billion in 2010 to $130 billion in 2014. The Postal Service should take advantage of this opportunity to expand its electronic international money transfer business and increase its revenue from the service.

While the Postal Service currently provides electronic international money transfer service from the U.S. to 10 Latin American countries[11] through the Sure Money program, its volume[12] has steeply declined in recent years, as shown in Table 3. In FY 2014, the program transferred $13 million, which was only 0.01 percent of the U.S. outbound remittance market. See Table 5 for market share information.

Table 3. Sure Money Volume, Revenue, and Count



Source: Postal Service data.

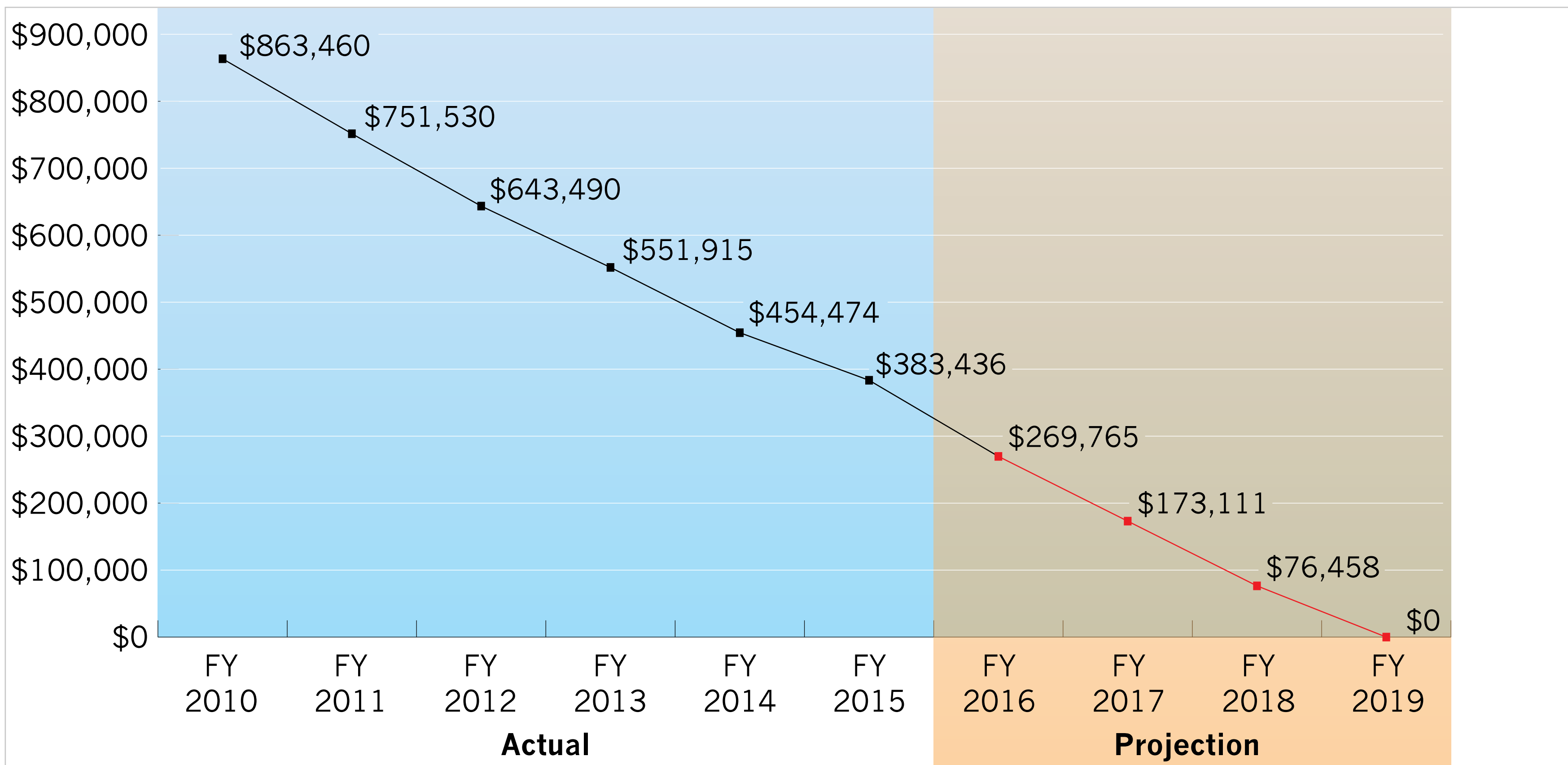
11 These countries are Argentina, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Peru. Service to Argentina is temporarily suspended effective October 28, 2013.
12 Amount transferred through the service.

Among the factors affecting the decline in Sure Money volume are:[13]

- Lack of public awareness about the service. Even though the program started with about 4,500 retail locations in 1997, Sure Money transactions occurred at only about 800 locations in FY 2014.
- Uncompetitive pricing. Rather than using market rates for each country, Sure Money charges the same amount regardless of destination, making it among the most expensive options for wiring money to the countries where it operates.
- Inadequate information on the Postal Service website to make it easy and convenient for customers to check rates and fees. While most providers have online or mobile tools allowing customers to easily see how much money the transfer recipient will get, the Postal Service offers no information about exchange rates on its website. To determine the transfer amount in the destination currency, Sure Money customers must obtain the associated fees and exchange rate from a Post Office and calculate it themselves.

If the trend in Sure Money volume continues, we estimate the program will not generate any revenue[14] by FY 2019, as shown in Figure 3.

Figure 3. Sure Money Revenue – Actual and Projected FY 2010 through FY 2019



Source: OIG analysis based on Postal Service data.

Note: The projection shows there would be no customers and no revenue by FY 2019.

13 *The Road Ahead for Postal Financial Services* (Report Number RARC-WP-15-011, May 21, 2015).
14 The Postal Service earns revenue from transaction fees, refund fees, and change of recipient fees.

The Postal Service could increase its share of the international money transfer market by improving and expanding the Sure Money program through additional countries beyond Latin America or offering new money transfer services.

International Money Transfer Improvements

The Postal Service could increase its share of the international money transfer market by improving and expanding the Sure Money program through additional countries beyond Latin America or offering new money transfer services.[15] There are various ways to do this, such as joining the Universal Postal Union (UPU) International Financial System (IFS) money transfer network or working with partners to provide options such as walk-in, online, and twin-card[16] fund transfers. The UPU IFS network is a worldwide electronic postal payment network that links participating operators with their business partners. It enables secure money transfers electronically through postal organizations across the globe. There were 74 countries participating in the UPU IFS network as of December 2015, and the participation costs are reasonable.

The UPU Postal Payment Service Agreement (PPSA) outlines operational and financial regulations applicable to international money transfers. The PPSA requires UPU members, who are party to the agreement, to officially designate[17] the name and address of the operator(s) to operate the postal payment services. Operators typically are national posts; however, it could also be another institution(s). The U.S. is a member of the UPU and also a party to the PPSA. The U.S. Department of State oversees the UPU policy. Currently, the Department of State has not designated the Postal Service, or any other institution(s), as the PPSA operator(s).

To prepare for full implementation of the PPSA, UPU members have progressively transitioned from paper money transfers to electronic money transfers, mainly through the IFS network. The UPU plans to approve the development of a new Worldwide Electronic Postal Payment Network which will open access to the IFS to third parties, implement common security standards, and extend the range of postal payment services. This may provide an opportunity for Postal Service competitors to increase their share of international money transfers to and from the U.S.

Our analysis shows that if the Postal Service could increase its market share from any of these options from 0.25 percent in the first year to 3 percent in year 5, the Postal Service could generate additional revenue of $445,932,401 in the 5-year period.[18] See Appendix B for the revenue projection.

To succeed in the international money transfer service market, the Postal Service will need to establish a competitive pricing strategy and effectively market its products. Other important elements to consider are target countries (countries with high receiving volume),[19] customers, and locations.

Both the number of companies that are providing electronic international money transfers and the variety of offerings are expanding. As shown in Table 4, leading companies provide money transfer services through walk-in locations, online, mobile applications, automated teller machines (ATM), and by phone.

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15 The Postal Regulatory Commission ruled that international money transfer services in general are postal services for the purpose of the Postal Accountability and Enhancement Act. Thus, the Postal Service may cancel current services and reestablish the same or similar services in the future.
16 For the twin-card option, a customer would buy a set of prepaid cards at the Post Office or the Postal Service's website. One card is used to send money and another to receive money. The Postal Service would earn money from selling the card as well as charging the customer a small fee whenever the customer makes the funds transfer. Poste Italiane is currently offering this service to its customers.
17 The 26th UPU Congress will be held in Istanbul, Turkey, September 20 through October 7, 2016. UPU members must designate an operator within six months (or April 7, 2017) following the end of the UPU Congress.
18 We used the same growth rates of 0.25 percent to 3 percent that the OIG calculated in the report entitled *The Road Ahead for Postal Financial Services* (Report Number RARC-WP-15-011, May 21, 2015). The OIG assumed that the Postal Service could increase its market share from 0.25 percent to 3 percent in 5 years by improving and expanding the Sure Money service.
19 See Figure 4 for the top 10 countries.

The Postal Service has a number of advantages that it can build on in the electronic international money transfer service market.

Table 4. Leading Money Transfer Companies and Their Services

Money Transfer Company	Walk-in Locations in U.S.	Walk-in Locations Worldwide	On-Line	Mobile Applications	ATM	By Phone
MoneyGram	40,000	350,000	Yes	Yes	Yes	No
Western Union	50,000	500,000	Yes	Yes	Yes	Yes
Ria	Unable to Determine.	287,000	Yes	Yes	No	No
Viamericas	3,000	60,000	Yes	No	No	Yes
Xoom	NA	NA	Yes	Yes	No	No

Source: Money transfer companies' websites.

The Postal Service has a number of advantages that it can build on in the electronic international money transfer service market. Specifically, the Postal Service:

- Has an established Bank Secrecy Act (BSA) compliance program.[20]
- Is already partnering with Bancomer Transfer Services (Bancomer) to provide the Sure Money service.
- Has an extensive network of over 31,600 post offices nationwide, which is a big advantage for walk-in money transfer service.
- Is considered a trusted entity by the public and has a secure brand identity.

The Postal Service also faces challenges and limitations in this market, including:

- Traffic at post offices continues to decline.
- Stiff competition with well-established companies. Competitors may be able to offer the same services for lower cost and with more options.
- Cost of initial investment to establish new platforms.

Even taking these limitations into account, the Postal Service has opportunities to expand its international money transfer services and increase its revenue from them.

20 The BSA requires money services businesses, including the Postal Service, to have an anti-money laundering program with regard to the sale of money orders and international money transfers. As part of the program, the Postal Service is required to detect and report potential money-laundering activities.

The number of domestic money orders sold have plunged 60 percent since their peak of 233 million in FY 2000, to 93 million in FY 2015. Our recent report suggests a series of initiatives to improve service and better meet the modern needs of those who purchase domestic money orders and the businesses that accept them as payment.

Domestic Money Orders

In our recent report,[21] we stated that domestic money orders are among the Postal Service's more profitable products and have many benefits. They are often sent through the mail, generating tens of millions of dollars in additional postage revenue. Also, the outstanding balance of money orders that have been purchased, but not yet redeemed, gives the Postal Service significant cash flow flexibility. The Postal Service invests the funds and, in 2015, earned about $2 million in interest income, known as "float."

However, in the wake of alternatives from other providers and broad shifts toward electronic payments, the number of domestic money orders sold have plunged 60 percent since their peak of 233 million in FY 2000, to 93 million in FY 2015. Our recent report suggests a series of initiatives to improve service and better meet the modern needs of those who purchase domestic money orders and the businesses that accept them as payment, including:

- Assigning a national product manager to strategically guide the money order business. The product manager should have deep knowledge of the payments industry, study the changing payments needs of people and businesses, and ensure that postal money orders meet those needs.
- Considering potential modernization for money orders, such as selling paper money orders online and through a mobile application,[22] and introducing electronic money orders.
- Optimizing the retail experience at post offices with high volume of money order sales. For example, these post offices can dedicate a separate line for customers to buy stamps and money orders to speed up the selling process.
- Promoting money order products in stores and online.

We estimated that if the Postal Service actively managed and promoted domestic money orders at a strategic level and began offering paper domestic money orders through digital technologies, such as *usps.com* and the My USPS app™, it could gain efficiencies and increase profit by $150,902,444 over a 5-year period. See Appendix C for the calculation.

21 Report Number RARC-WP-16-007, April 4, 2016.
22 Customers would use a mobile application or *usps.com* to buy a money order, indicating the amount, the recipient, and the recipient's street address. Customers would pay for the money order and the postage with a debit or prepaid card or by entering their checking account information. The money order could then be created at a central fulfillment center and mailed to the recipient.

Recommendations

We recommend the vice president, Global Business, coordinate with the vice president, Engineering Systems, to:

1. Remake the current international paper money order program into an enhanced electronic international money transfer services program.

We recommend the vice president, Retail and Customer Service Operations, coordinate with the vice president, New Products and Innovation, to:

2. Improve the domestic money order program by adding digital technologies along with strategic management and marketing.

We recommend the vice presidents, Global Business, Engineering Systems, Retail and Customer Service Operations, and New Products and Innovations, coordinate to:

3. Assign a project manager to oversee revenue growth opportunities for money transfer services and products.

Management's Comments

Management disagreed with the recommendations. They agreed that the IPMO program is no longer valid. However, they disagreed with the financial analysis regarding the revenue opportunities in remaking it into an enhanced electronic international money transfer service. Also, they stated they would need to substantially increase staffing to address compliance and mitigate the higher risks associated with the international remittance business, thereby eroding some of the perceived profit potential.

Regarding recommendation 1, in FY 2012, management pursued an initiative to enhance the Postal Service's wire transfer capabilities for international and domestic electronic money transfers. However, they stopped pursing options because of high risk. Management stated they would not commit to enhancing the current IPMO program until they consider the high risk and ensure the program aligns with the overall secure digital strategy.

Regarding recommendation 2, management stated other new products and innovations are a higher priority than improvements to the domestic money order program. They also reiterated their concerns with offering paper money orders online or through a mobile application.

Regarding recommendation 3, management stated they will assign a project manager when all risks and priorties have been resolved.

See Appendix D for management's comments in their entirety.

Evaluation of Management's Comments

Although management disagreed with the recommendations, the OIG considers managerment's comments responsive to the recommendations. We acknowledge the risks in re-making the programs. However, we believe that the money order business, both domestically and internationally, can provide significant revenue opportunities with resources, as determined by the Postal Service, used to mitigate these risks.

The purpose of this report was to provide opportunities for revenue growth in the international and domestic money transfer markets to allow management to determine the best alternatives that align with overall strategic priorities. Accordingly, we are not taking this to the formal resolution process. We consider the recommendations closed, but not implemented.

Management disagreed with our financial analysis and revenue projections. We recognize that financial analysis and revenue projections rely on assumptions, variances, and professional judgment. As such, the results may vary and no single model will forecast with accurate precision in every circumstance. However, we believe our financial analysis and revenue projections remain valid. The Postal Service has an opportunity to increase its share of the electronic money transfers market and generate additional revenue.

Appendices

Click on the appendix title to the right to navigate to the section content.

Appendix A: Additional Information

Worldwide, the international money transfer market grew between 3 percent and 11 percent annually from 2010 to 2014. The U.S. is the number one sender of international remittances. U.S. residents sent $110 billion in remittances to other countries in 2010 and $130 billion in 2014.

Background

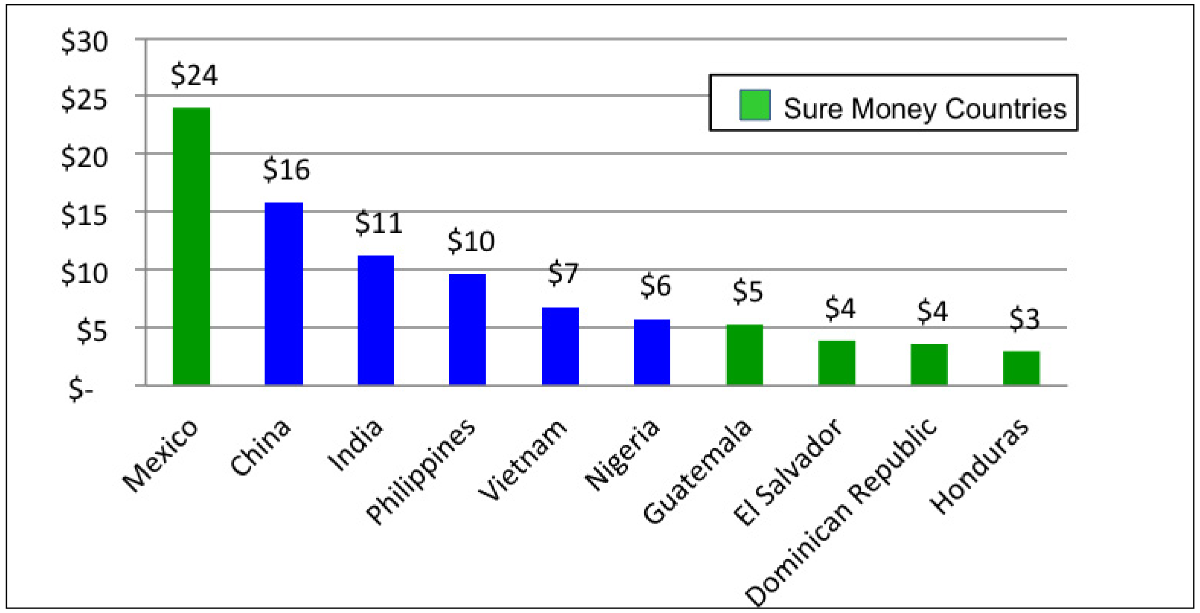
The Postal Service has agreements with 27 foreign countries to accept and cash foreign money orders in the U.S. In return, those countries also accept Postal Service money orders issued to recipients in their countries. This international money order program provides customers a means to send funds abroad. The maximum amount for an international postal money order is $700. Japan has the majority of money order transactions for both outbound (money orders issued by the Postal Service and cashed in foreign countries) and inbound (money orders issued by foreign countries and cashed in the U.S.).

For outbound money orders, the Postal Service earns revenue from fees, currently $4.75 per money order, and a small amount of interest from the money float. In addition, the Postal Service claims revenue on the money orders sold to customers but not cashed after 2 years, known as escheatment revenue. For inbound money orders, the Postal Service earns commission fees from foreign posts for cashing their money orders.

Worldwide, the international money transfer market grew between 3 percent and 11 percent annually from 2010 to 2014. The U.S. is the number one sender of international remittances. U.S. residents sent $110 billion in remittances to other countries in 2010 and $130 billion in 2014.

Mexico, the country that receives the most electronic international money transfers from the U.S., received $24 billion in 2014. The next top receiving countries are China, India, Philippines, Vietnam, Nigeria, Guatemala, El Salvador, Dominican Republic, and Honduras.[23] The top 10 countries together collected $89 billion, or 68 percent of total U.S. outbound money transfers in CY 2014. See Figure 4 below for the top 10 countries.

Figure 4: CY 2014 U.S. Outbound Remittances (Amounts in billions)



Source: OIG analysis of World Bank data.

23 OIG report entitled *The Road Ahead for Postal Financial Services* (Report Number RARC-WP-15-011, May 21, 2015) included South Korea in the top 10 countries, based on World Bank data available at the time of the report. The World Bank updated its data in October 2015. Honduras replaced South Korea on the top 10 list.

Since 1997 the Postal Service has offered the Sure Money program for transfers from the U.S. to 10 Latin American countries in partnership with Bancomer Transfer Services. These countries are: Argentina,[24] Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Peru. The Sure Money service allows customers to transfer up to $1,500 a day. Mexico, the largest receiving country of the program, received more than 90 percent of the transferred amount.

The program started with 4,500 retail locations; however, Sure Money transactions occurred at only about 800 locations in FY 2014. The amounts transferred through the program have been declining and it occupied only 0.01 percent of the U.S. outbound remittance market in 2014, as shown in Table 5 below.

Table 5. Sure Money Market Share (Amounts in billions)

	2010	2011	2012	2013	2014
U.S. Outbound Remittance	$109.8	$120.2	$123.3	$123.5	$130.9
Postal Service Sure Money Transferred Amount	$0.280	$0.246	$0.021	$0.017	$0.011
Postal Service Share of U.S. Outbound Market	0.3%	0.2%	0.02%	0.01%	0.01%

Source: World Bank data and Postal Service data.

Objective, Scope, and Methodology

Our objective was to evaluate the Postal Service's IPMO program and identify opportunities for improvements and revenue growth. To accomplish our objective we:

- Reviewed and analyzed IPMO data provided by the St. Louis Accounting Services for FY 2010 through FY 2015, including money order sales (face value of money orders), revenues, transaction counts, and the amounts of money orders cashed by foreign countries.
- Reviewed and analyzed revenue and cost data provided by the Cost Attribution group personnel for FY 2010 through FY 2015.
- Reviewed World Bank international remittance data for CY 2010 through CY 2014.
- Researched competitors and informational websites related to international money transfers to gather information about volume, types of service, pricing strategies, and financial performance.
- Reviewed OIG reports entitled *The Road Ahead for Postal Financial Services* (Report Number RARC-WP-15-011, May 21, 2015) and *Modernizing the Postal Service Money Order* (Report Number RARC-WP-16-007, April 4, 2016).

We conducted this performance audit from January through July 2016 in accordance with generally accepted government auditing standards except for internal controls testing over the IPMO program. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit

24 Service to Argentina was suspended effective October 28, 2013.

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objective. We discussed our observations and conclusions with management on May 19, 2016, and included their comments where appropriate.

We did not perform tests of internal controls over IPMO as it was not our objective to provide assurance on the effectiveness of internal controls over the program. Absence of internal controls testing did not significantly affect our audit finding and conclusions. We assessed the reliability of international money order sales data by comparing data we generated from the Enterprise Data Warehouse with data provided by the St. Louis Accounting Services. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

Report Title	Report Number	Final Report Date	Monetary Impact (in millions)
Modernizing the Postal Service Money Order	RARC-WP-16-007	April 4, 2016	$0
Report Results: While postal domestic paper money order sales are in decline, there is an opportunity to alter that trend. Postal money orders have some unique advantages to customers such as security, availability, and ease of redemption. The Postal Service could make a number of strategic enhancements to build upon these strengths. In addition, it could modernize both the way it sells money orders and the money order product itself, which could attract the next generation of customers. The OIG suggested a series of initiatives to improve service and revenue, including: • Assigning a national product manager to strategically guide the money order business. • Considering potential modernization for money orders, such as selling paper money orders online and through a mobile application, and introducing electronic money orders. • Optimizing the retail experience at post offices with high volume of money order sales. • Promoting money order products in stores and online. Management expressed concerns with offering paper money orders online or through a mobile application, and having them printed at central facilities and mailed to the recipient. Management did not state whether they agreed or disagreed with the other initiatives.			
The Road Ahead to Postal Financial Service	RARC-WP-15-011	May 21, 2015	$0
Report Results: The Postal Service could make use of its current financial services data involving money orders, international money transfers, and other products to help design future offerings. Expanding financial services would help the Postal Service improve the lives of millions of Americans as it fulfills its universal service obligation. Regarding money transfers, if the Postal Service improved and expanded its Sure Money international fund transfer service beyond its current reach and into the top markets, it could become a truly useful and robust product.			

Appendix B: International Money Transfer Services Revenue Projection

We projected the Postal Service's revenue from the international money transfer services.

(Amounts in millions)	Actual 2014	Annual Growth Rate	Projected Year 1	Year 2	Year 3	Year 4	Year 5
U.S. Outbound Money Transfers to Sure Money Countries	$43,633	3.95%	$45,356	$47,148	$49,010	$50,946	$52,958
U.S. Outbound Money Transfers to All Other Countries	86,324	4.47%	90,183	94,214	98,425	102,825	107,421
Total U.S. Outbound Money Transfer Market	**$129,957**		**$135,539**	**$141,362**	**$147,435**	**$153,771**	**$160,379**
x Postal Service's Market Share			0.25%	0.5%	1.0%	2.0%	3.0%
= Postal Service's Outbound Money Transfer Market			$339	$707	$1,474	$3,075	$4,811
x Revenue Rate (Fee + Foreign Exchange Revenue)			4.29%	4.29%	4.29%	4.29%	4.29%
= Postal Service's Revenue			$14.5	$30.3	$63.3	$131.9	$206.4
Cumulative Revenue for the 5-Year Period							$446.4
Less: Projected International Money Transfer Revenue (Through Sure Money) for the 5-Year Period							($0.5)
Revenue Increase (If the Postal Service expands the international money transfer market.)							$445.9

Note: cumulative amounts are rounded.
Source: OIG analysis and calculation.

We projected the Postal Service's revenue from the international money transfer services as follows:

- We used the 2014 U.S. outbound money transfer amount from the World Bank database ($130 billion rounded) as the base for revenue projection.
- We calculated the average annual growth rate for Sure Money countries and all other countries based on 2010 through 2014 volume. The result was 3.95 percent growth in Sure Money countries and 4.47 percent in all other countries. We applied these rates to $130 billion to project the U.S. outbound market for the next 5 years.
- We applied small percentages of market share that the Postal Service could capture, from 0.25 percent in year 1 through 3 percent in year 5, to calculate the Postal Service's market in 5 years.[25]

25 We used the same growth rates of 0.25 percent to 3 percent that the OIG calculated in the report entitled The Road Ahead for Postal Financial Services (Report Number RARC-WP-15-011, May 21, 2015). The OIG assumed that the Postal Service could increase its market share from 0.25 percent to 3 percent in 5 years by improving and expanding the Sure Money service.

- We then applied the revenue rate of 4.29 percent (from service fees and currency exchange revenue)[26] to the Postal Service's market to calculate its revenue.
- Based on our calculation, the Postal Service could generate $14.5 million in revenue in year 1, $30.3 million in year 2, $63.3 million in year 3, $131.9 million in year 4, and $206.4 million after 5 years. The cumulative revenue for the 5-year period would be $446.4 million.
- We projected the Sure Money revenue for the current process, if the declining trend continues, for the 5year period. The amount would be $500,000.
- The difference between this new revenue and the Sure Money revenue for the 5year period would be about $445.9 million, an increase in revenue if the Postal Service expands the international money transfer market.

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26 We used the same revenue rate of 4.29 percent that the OIG calculated in the report entitled *The Road Ahead for Postal Financial Services* (Report Number RARC-WP-15-011, May 21, 2015). The OIG assumes that prices are adjusted to match the industry standards on a country-by-country basis, with average fee and foreign exchange revenue coming to 4.29 percent of the transaction amount. This was calculated using World Bank data.

Appendix C: Projected Additional Profit from Domestic Money Orders

The OIG estimates that if the Postal Service actively managed and promoted money orders at a strategic level and began offering paper money orders through digital channels, it could gain efficiencies and increase profit.

Scenario	Profit					
	Year 1	Year 2	Year 3	Year 4	Year 5	Cumulative
Status Quo[27]	$69,558,387	$68,856,537	$68,015,560	$67,053,036	$65,985,026	$339,468,547
Active Management and Online/Mobile Channel	79,605,272	87,389,420	96,593,755	108,151,817	118,630,727	490,370,991
Difference	$10,046,885	$18,532,883	$28,578,195	$41,098,781	$52,645,701	$150,902,444

Source: OIG report Modernizing the Postal Service Money Order (Report Number RARC-WP-16-007, April 4 2016).

The OIG estimates that if the Postal Service actively managed and promoted money orders at a strategic level and began offering paper money orders through digital channels, such as *usps.com* and the My USPS app™, it could gain efficiencies and increase profit by $150.9 million over a 5-year period. The OIG projected the Postal Service's financial performance before and after the improvements as follows:

- The OIG projected the financial performance for the next 5 years if the current declining trends continue. The projection included yearly revenues, expenses, and net operation income.
- The OIG projected the financial performance for the next 5 years if the Postal Service actively managed and promoted money orders and began selling them through digital channels such as *usps.com* and the My USPS app. The projection included yearly revenues, expenses, and net operation income.
- The OIG calculated the differences in revenues, expenses, and net operation income before and after the changes. Based on the calculations, the Postal Service would earn an additional $150.9 million profit (income) over a 5-year period, as shown in the table above.

27 "Status quo" represents the Postal Service's financial performance if it does not make any changes to the domestic money order service and the declining trend continues.

Appendix D: Management's Comments

UNITED STATES POSTAL SERVICE

June 16, 2016

SHERRY FULLWOOD
A/DIRECTOR, AUDIT OPERATIONS

SUBJECT: International Paper Money Order Service (Report Number FT-AR-16-DRAFT)

The USPS is in agreement with the OIG that the international paper money order program is no longer financially viable and will continue to work through the State Department to pursue termination of this program. However, the USPS does not agree with the financial analysis presented in the International Paper Money Order Service Report with respect to the revenue opportunities in remaking the international money order program into an enhanced electronic international money transfer service. The OIG's current analysis assumes USPS would obtain agreement with ALL countries which is improbable. USPS unable to validate the $130B annual outbound international money transfers figure used by the OIG in their analysis and would need to compare to the actual 27 countries who we currently have agreement with. USPS is projecting revenue for the 5 year period, based on current growth rates and a turnaround from a negative trend, would be $10.1M. Less the current $.5M would result in revenue growth of $9.6M projected international money transfer revenue (Through Sure Money) for the 5 year period.

The report correctly notes that the USPS has an established Bank Secrecy Act (BSA) program, but does not mention that FinCEN expects the program to be commensurate with the risks posed by the nature and volume of the financial services offered along with geographic risk. Increased volumes along with new alternate delivery channels and service to an expanded number of countries will raise the regulatory risk profile of the USPS. The international remittance business has a very high risk and low margin product and is especially so when compliance considerations are factored in. Attesting to the high risk nature of the business, Western Union and MoneyGram, the industry leaders in this business have both had regulatory actions taken against them exceeding $100 million dollars and also suffered reputational damage. In order to mitigate these higher risks, the USPS would have to increase compliance staffing and resources substantially and thereby erode some of the perceived new profit potential.

Recommendation 1:

OIG recommends the Vice President, Global Business, coordinate with the Vice President, Engineering Systems, to remake the current international paper money order program into an enhanced electronic international money order transfer services program.

Management Response/Action Plan:

USPS management disagrees with the recommendation. In 2012, the USPS was actively pursuing a DRIVE initiative to retire the current Sure Money system and partner with an outside vendor to enhance the wire transfer capabilities of the USPS. The new service was designed to allow account-to-account and account-to-card transfers in addition to current cash payouts for both domestic and international electronic money transfers. After a long and thorough solicitation, the selected vendor was found guilty in a major fraud case and fined hundreds of

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millions of dollars. It became apparent at that time that should any electronic money transfer program be considered it would have to be a subset of a much larger secure digital strategy. The decision was made at that time by the USPS management to place this initiative on indefinite hold and ultimately ceased activities in this pursuit for the sake of brand protection due to the high risk in this market.

Before a commitment to "remake the current international paper money order program into an enhanced electronic international money order transfer services program", the risk factors above, to include USPS Brand concerns, financial viability of such project, and prioritization would need to be considered and strategically aligned with USPS Secure Digital Services.

Target Implementation Date:
N/A

Responsible Official:
N/A

Recommendation 2:

OIG recommends the Vice President, Retail and Customer Service Operations, coordinate with the Vice President, New Products and Innovation, to improve the domestic money order program by adding digital technologies along with strategic management and marketing.

Management Response/Action Plan:

USPS Management disagrees with the recommendation to add digital technologies to paper money orders. With the many innovations with a higher organizational priority and higher ROI in the New Products & Innovation funnel, adding digital technologies would not be a top priority at this time.

As stated in the Management Response in Report Number RARC-WP-16-007, April 4, 2016: Management has concerns with offering paper money orders online or through a mobile app, and having them printed at a postal facility and mailed to the recipient and disagreed with some of the assumptions the OIG used to support the financial analysis in its hypothetical scenarios.

Target Implementation Date:
N/A

Responsible Official:
N/A

Recommendation 3:

OIG recommends the Vice Presidents, Global Business, Engineering Systems, Retail and Customer Service Operations, and New Products and Innovations, coordinate to assign a project manager to oversee revenue growth opportunities for money transfer services and products.

Management Response/Action Plan:

USPS management disagrees with the recommendation until such time that all brand risk, financial viability, and prioritization concerns are resolved. If these concerns are resolved and the decision is made to proceed with such initiative, USPS management agrees that a project manager would be critical to success.

Target Implementation Date:
N/A

Responsible Official:
N/A

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