



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Modernizing the Postal Money Order

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Executive Summary

The Post Office Department introduced money orders during the Civil War as a safe way for Union soldiers to send money home to their families. A century-and-a-half later, postal money orders remain essential to the lives of millions of Americans who use them to make \$21 billion worth of payments annually. Money orders are essentially prepaid checks. But in the wake of alternatives from other providers and broad shifts toward electronic forms of payment, the number of postal money orders sold has fallen by 60 percent from their peak in 2000. Meanwhile, other providers of money orders appear to be faring better. Between 2011 and 2013, the number of non-postal money orders actually increased slightly, while postal money order volumes declined by 11 percent.

To better meet the needs of those who purchase money orders and the businesses that accept them as a form of payment — saving them time and money — postal money orders could be modernized. The Postal Service also would benefit from a rejuvenated money order business, which is strategically important on many levels.

First, money orders are a key driver of foot traffic to post offices, with one in 10 retail revenue transactions nationally containing a money order. Among the 1,000 locations with the highest money order volume, a quarter of transactions include a money order.

In addition, money orders are one of the Postal Service's more profitable products, with an average profit margin of 35 percent.

Highlights

Postal money orders were introduced in 1864 as a safe way for soldiers and others to send payments over long distances.

Post offices sold \$21 billion worth of money orders in fiscal year 2015, generating \$159 million in revenue.

Nationally, one in 10 postal retail revenue transactions include a money order.

In the wake of alternatives from other providers and broad shifts toward electronic forms of payment, money order sales have plunged 60 percent from their peak in 2000.

About 1,200 high volume post offices grew money order sales by at least 10 percent in the past 3 years, showing that improving sales is achievable.

Selling money orders through digital channels could have significant benefits for money order customers.

The Postal Service could assign a strategic manager to help modernize and stabilize this important product.

Because customers often mail them, money orders also potentially generate tens of millions of dollars in annual postage revenue for the Postal Service. Furthermore, there is a lag between the time when a money order is purchased and when it is redeemed. These funds give the Postal Service significant cash flow flexibility. As the postal money order business shrinks, all of these benefits decline with it.

There is good reason to think that the Postal Service could improve upon its money order business. While overall sales declines paint a stark picture, a closer examination reveals that the top 25 percent of post offices for money orders — which account for 77 percent of all money order fees — had stable sales over the past 3 years, with sales dipping just 1 percent. Among these high volume locations, about 1,200 actually grew their money order sales by at least 10 percent — demonstrating that increasing money order sales is achievable. But to get there, money orders could benefit from a product manager to share best practices and focus on strategic growth — something the business now lacks.

The U.S. Postal Service Office of Inspector General (OIG) has identified some retail best practices that the Postal Service could follow, particularly at high volume money order locations. It also could begin selling paper money orders through digital channels, such as *usps.com* and the USPS Mobile app. This innovation, which would likely not require regulatory approval, could save users a significant amount of time. Additionally,

money orders sold through digital channels and printed at a central facility could be more profitable and generate more mail volume than money orders sold at post offices.

To truly bring the product into the digital age, the Postal Service also could introduce a fully-electronic money order, as many foreign posts have done. Customers could use such a product to pay bills, make person-to-person payments, or make ecommerce purchases. In addition, electronic money orders could have significant appeal for online merchants, reducing their payment processing costs. While this innovation would likely be allowable under current law, it would require Postal Regulatory Commission approval.

While postal 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. Given the pace of current declines, time is of the essence. If the Postal Service waits to take action to stabilize and modernize this important product, fewer money order users and recipients will be left to benefit from those changes.

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Observations

The Post Office Department introduced money orders in 1864 as a safe way to send payments over long distances.

Introduction

Until the mid-19th century, sending money through the mail was a risky proposition. Each year, thieves stole as much as \$1 million in cash from the mail — some of it from Union soldiers fighting in the Civil War.¹ In 1864, the United States government came up with a solution: postal money orders. For a nominal fee, Americans could purchase a money order from their local post office and use it as a guaranteed payment they could send safely through the mail. The product caught on. By 1890, the total value of postal money orders issued topped \$110 million a year (\$2.9 billion in today's dollars).² More than a century later, millions of American families still rely on postal money orders as a convenient, reliable way to pay their bills, purchasing about \$21 billion in face value per year.³ Money orders also drive significant foot traffic to post offices, are frequently mailed, and are one of the U.S. Postal Service's more profitable products.

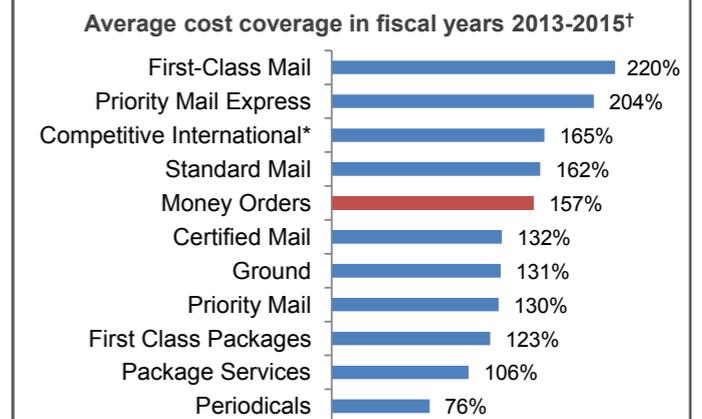
But the money order business is in trouble. In the wake of alternatives from other providers and broad shifts toward electronic forms of payment, the number of postal money orders sold each year has plunged from 233 million in 2000 to 93 million in 2015 — a 60 percent drop. To put that into perspective, First-Class Mail has fallen 39 percent over the same period. When it comes to the money order business, the Postal Service appears to prioritize managing the day-to-day operations over strategizing about how to improve or build upon it. This white paper is an attempt to encourage and aid such strategic discussions, which we believe could lead to significant benefits for the millions of Americans who use money orders, many of them on a regular basis, and for the Postal Service itself.

Money Orders Bring Many Benefits

Money orders are among the Postal Service's more profitable products. They brought in \$159 million in revenue and \$54 million in profit (known as "contribution" in postal terms) during fiscal year (FY) 2015.⁴ Over the past 3 years, it has been the fifth most profitable among postal products that generate at least \$100 million in revenue, as shown in Figure 1. Money orders also are often sent through the mail, potentially generating tens of millions in additional postage revenue.⁵ The \$600 million to \$700 million outstanding balance of money orders that have been purchased, but not yet redeemed, also gives the Postal Service significant cash flow flexibility — particularly during these times of tight budgets.⁶ The Postal Service invests those funds, generating \$2 million in interest income, known as "float," in FY 2015.⁷

Figure 1: Money Order Profitability

MONEY ORDERS EARN STRONG PROFITS
Among products with at least \$100 million in revenue, money orders are among the more profitable. If postage from mailed money orders and the "float" earned by investing the funds from outstanding money orders were included, profits would be even higher.



† Cost coverage is revenue as a percentage of attributable costs.
*Average excludes 2013, which was unavailable.
Source: U.S. Postal Service Cost and Revenue Analysis reports.

1 National Postal Museum, *Development and Operation of the Domestic Money Order System*, by Terence M. Hines and Thomas Velk, 2011, http://postalmuseum.si.edu/Symposium2011/papers/Hines_velk_2011_stamps.pdf, pp. 2-4.
2 Ibid.
3 There were \$21 billion in face value money orders sold in fiscal year (FY) 2015.
4 Revenue figure comes from Postal Service's Market Dominant Billing Determinants, Special Services, <http://www.prc.gov/dockets/document/94395>. Cost information comes from the Postal Service Public Cost and Revenue Analysis report, <http://www.prc.gov/dockets/document/94410>. Profit, or "contribution," is the difference between revenue and costs for a given product. A portion of the revenue from money orders comes from "escheatment," which is the face value of money orders that have gone unredeemed for 2 years — a policy that is explained here: U.S. Postal Service Office of Inspector General, *Controls to Detect Money Order Fraud*, Report No. DP-AR-13-002, February 7, 2013, <https://www.uspsaig.gov/sites/default/files/document-library-files/2015/dp-ar-13-002.pdf>, p. 9.
5 The Postal Service's Household Diary study names money orders as one of the most common First Class Mail pieces, but does not give figures. In OIG interviews with 50 postal money order users, 68 percent said they mail some or all of the money orders they buy. U.S. Postal Service, *The Household Diary Study: Mail Use & Attitudes in FY 2014*, August 20, 2015, http://www.prc.gov/docs/93/93171/2014%20USPS%20HDS%20Annual%20Report_Final_V3.pdf, p. 5.
6 This averaged \$666 million in FY 2015. U.S. Postal Service, "USPS-FY15-28 - FY 2015 Special Cost Studies Workpapers - Special Services (Public Portion)," Postal Regulatory Commission Docket No. ACR2015, December 29, 2015, <http://www.prc.gov/dockets/document/94343>.
7 Ibid.

Nationally, one in 10 retail revenue transactions include money orders, which are a key driver of foot traffic to post offices.

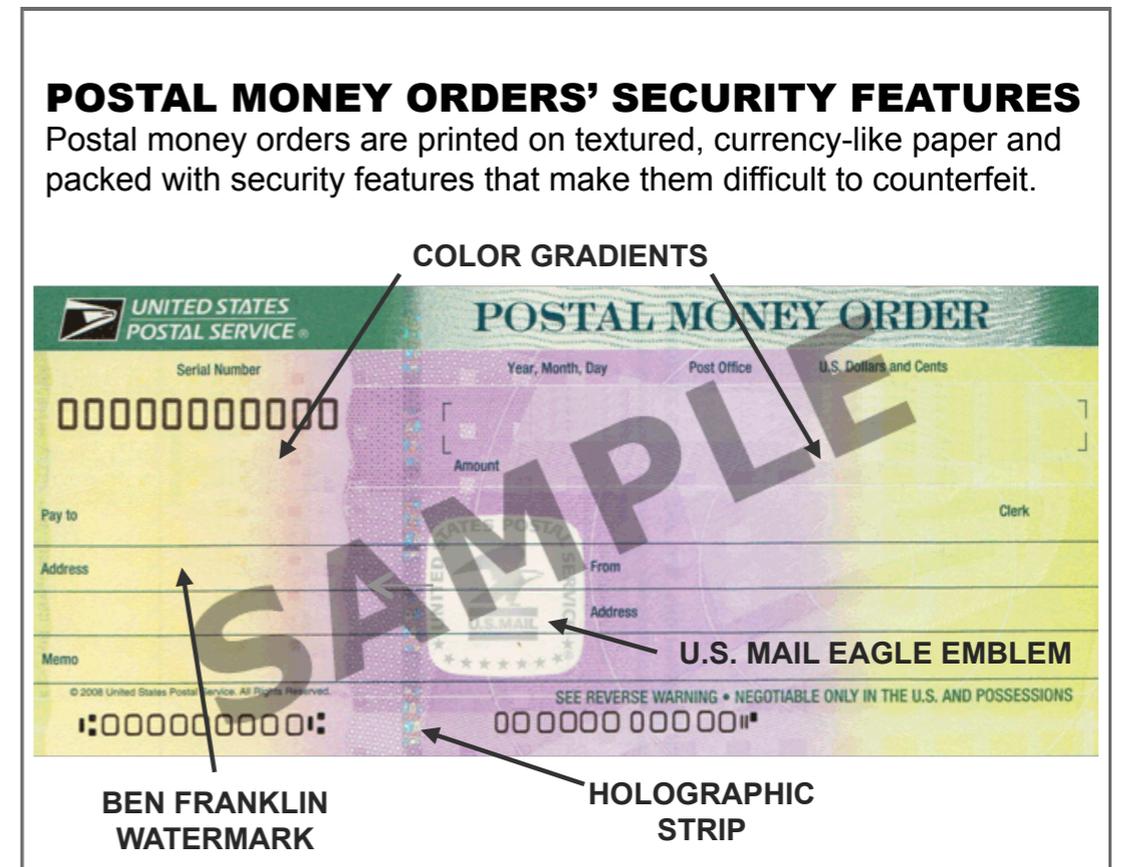
Money Orders Are a Key Driver of Retail Foot Traffic

Money orders also are one of the biggest drivers of foot traffic to post offices, where 10 percent of all revenue transactions in FY 2015 included a money order.⁸ Among the 1,000 locations with the highest money order volume, a quarter of transactions included a money order. In some high volume offices, money orders were present in more than half of all transactions. On top of that, money order customers often buy additional items when they come to the post office. Nearly half of all money order transactions in 2015 — 28 million in total — also included other postal products.⁹ In addition, money order retail sales have been relatively more stable than that of other retail products. Overall post office walk-in revenue declined 40 percent faster during the past 3 years than money order fee revenue.¹⁰ All of this suggests that money orders could be strategically important to the success of the Postal Service's retail network.

Money Orders Have Anti-Fraud Security Features

Postal money orders are prepaid and come with strong security features that make them difficult to counterfeit, as shown in Figure 2. The color gradient, watermark, and holographic strip all work to minimize fraud. Another advantage for the Postal Service in this arena is its two law enforcement arms: the Postal Inspection Service, which investigates external crimes, and the Office of Inspector General (OIG), which investigates misdeeds by postal employees. Internal fraud tends to happen at small post offices that lack automated point-of-sale terminals. Among cases the OIG has closed over the past 5 years, these scams resulted in an average of about \$1 million per year in theft, though the Postal Service recovers the vast majority of that money.¹¹ The losses due to fraud are minuscule relative to the billions of dollars that flow through postal money orders every year. This is a sign of the effectiveness of fraud mitigation strategies and of a well-functioning product.

Figure 2: Postal Money Orders' Security Features



8 OIG analysis of 2015 data from the Postal Service Retail Data Mart. This is for the approximately 18,000 post offices that have POS or RSS-type point-of-sale terminals, which account for 94 percent of all post office walk-in revenue. Other locations use non-computerized terminals that do not collect transaction-level data.
9 Ibid. Many customers buy multiple money orders per transaction.
10 OIG analysis of data from the Postal Service Accounting Data Mart.
11 Based on interview of OIG financial fraud investigators.

About 1,200 high volume post offices grew their money order sales by at least 10 percent from 2012 to 2015.

The Decline in Money Order Sales Has Been Uneven Across the Network

As Figure 3 illustrates, overall postal money order use has plunged over the past decade and a half. Much of this reflects the broad shift away from checks and money orders toward electronic forms of payment, particularly for bills and ecommerce.¹² Money order revenue has fallen at about half the rate as the number of money orders sold, thanks to growth in the average size of money orders purchased and modest price increases.¹³

While the overall decline paints a dismal picture, a closer examination reveals a more nuanced portrait. Dividing post offices into quartiles based on money order fee revenue shows that the top quartile — which accounts for 77 percent of all money order fees — saw stable sales between 2012 and 2015 with money order fee revenue falling just 1 percent.¹⁴ Among these high volume locations, about 1,200 post offices actually grew their money order sales by at least 10 percent. At the same time, post offices in the two lowest quartiles — which accounted for just 6 percent of money order fees — saw sales dive by 17 percent and 32 percent respectively over the same period, as is illustrated in Figure 4.

In an effort to pin down the reasons for the stark differences in the trajectory of money order sales, the OIG examined three external factors that help predict money order sales at a given post office: population, economic conditions, and the general level of education in the surrounding area.¹⁵ The OIG also controlled for two internal factors: post office walk-in revenue and whether the location was a part of the Post Office Structure Plan, or POST Plan, an initiative to cut costs by significantly scaling back hours at about 13,000 rural post offices.¹⁶

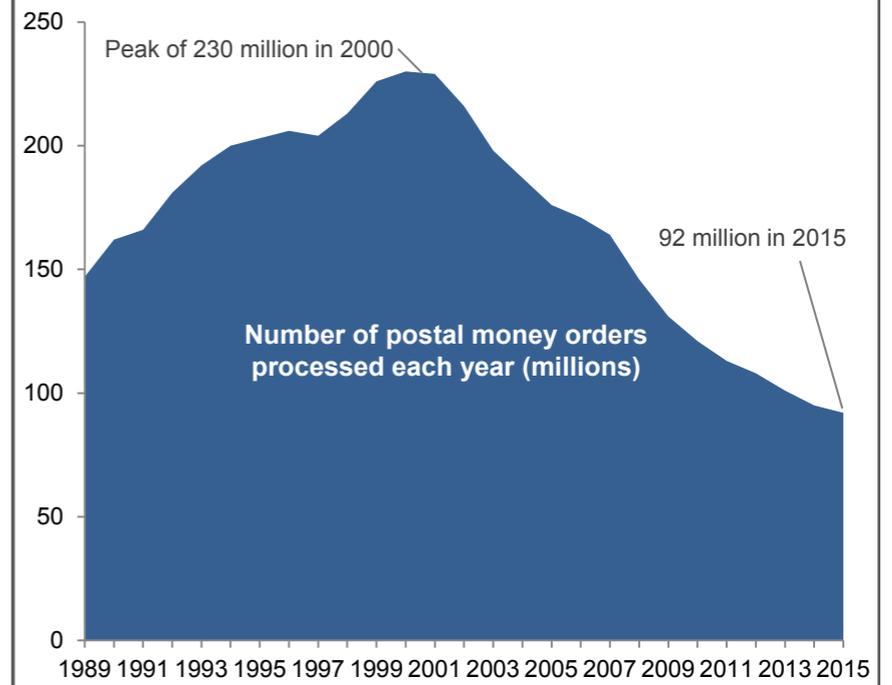
The OIG created a multiple linear regression model to examine the effects of each of these factors on money order revenue, while controlling for the other factors. The model showed that post offices in ZIP Codes with higher population, more poverty, and lower education levels sold more money orders. The full methodology and findings are in Appendix A.

This model is useful because it allowed the OIG to identify high volume post offices with favorable conditions for money order sales, but that do not appear to be selling as many money orders as they could. If the Postal Service aims to increase

Figure 3: Money Order Use Declining

USPS MONEY ORDER USE IN DECLINE

Postal money order use has plunged 60 percent since its peak in 2000 in the wake of alternatives from other providers and broad shifts toward electronic forms of payment.



Source: Federal Reserve, which processes postal money order payments.
Note: The number of money orders processed is lower than the number sold.

¹² Federal Reserve System, *2013 Federal Reserve Payments Study: Recent and Long-Term Payment Trends in the United States: 2003-2012*, p. 7.

¹³ Money orders over \$500 come with a higher fee, and their sales volume has declined much more slowly than that of smaller money orders. With large money orders making up a higher proportion of money order sales, the average revenue per money order has increased.

¹⁴ The Postal Service does not retain this level of data for more than 3 years, and pre-2012 data were no longer available at the time of the OIG's analysis.

¹⁵ The OIG also tested the proximity to the nearest Walmart, which has emerged as a powerful player in the money order space. But this proved to be a statistically insignificant factor in predicting the money order sales of a given post office.

¹⁶ On Average, POST Plan locations saw money order fee revenue decline about seven times faster than non-POST Plan offices between 2012 and 2015. A brief explanation of POST Plan can be found at <http://about.usps.com/publications/annual-reports/2012/path-our-financial-plan.html>.

money order sales, implementing best practices at these underperforming offices could be the low-hanging fruit, where the opportunity for improvement is the greatest. In addition to enhancing the customer experience, these changes also could pay off financially. If the Postal Service stabilized and grew sales at just the 1,000 lowest performing locations for money orders, it could generate \$9 million in additional revenue over 5 years, compared to what projected revenues would be if current trends continued.¹⁷

There Are Other Providers of Money Orders

The Postal Service sold money orders at about 31,800 postal retail locations in 2015, but there are a number of providers of money orders beyond just the Postal Service. While many commercial banks offer money orders, the two largest providers are Western Union and MoneyGram, which offer products through a massive network of some 100,000 private U.S. and Canadian retailers who act as agents.¹⁸ Many pharmacies, convenience stores, supermarkets, big box retailers, liquor stores, check cashers, and payday lenders are agents for Western Union or MoneyGram, typically selling a variety of products, including money transfers and bill pay.

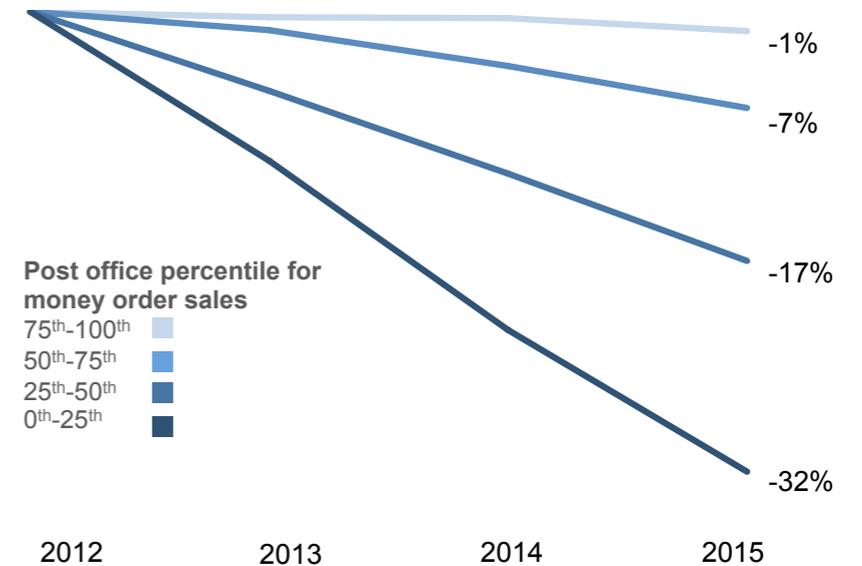
The overall size of the money order market is difficult to pin down precisely. In 2014, MoneyGram reported \$54 million in money order revenue, down 2 percent from the previous year.¹⁹ Western Union lumps money orders in with “other” revenue, which also includes foreign exchange and prepaid services. Its “other” revenue was \$118 million in 2014.²⁰ For both Western Union and MoneyGram, money orders comprise less than 4 percent of their overall revenue.²¹

Figure 4: High Volume Offices Have Stable Sales

HIGHER VOLUME POST OFFICES HAVE MORE STABLE MONEY ORDER SALES

While post offices that sell few money orders have seen a 32-percent dive in money order sales since 2012, high volume locations — which account for three quarters of all money order fee revenue — have been relatively flat.

Percent change in average money order fees since 2012



Source: OIG analysis of data from the Postal Service Accounting Data Mart.

17 This is a cumulative 5-year estimate. It includes money order fees and projected escheatment income. The OIG identified more than 4,000 potentially underperforming money order post offices.

18 Western Union has some 50,000 U.S. agents and MoneyGram has 56,000 in the United States and Canada. Securities and Exchange Commission, *The Western Union Co. Form 10-k Annual Report*, February 20, 2015, <http://edgar.sec.gov/Archives/edgar/data/1365135/000136513515000008/wu-12312014x10k.htm>, p. 6 and Securities and Exchange Commission, *MoneyGram International, Inc. Form 10-k Annual Report*, March 3, 2015, <http://edgar.sec.gov/Archives/edgar/data/1273931/000127393115000032/mgi2014123110-k.htm>, p. 7.

19 Securities and Exchange Commission, *MoneyGram International, Inc. Form 10-k Annual Report*, p. F-47.

20 Securities and Exchange Commission, *The Western Union Co. Form 10-k Annual Report*, pp. 57, 70, and 146.

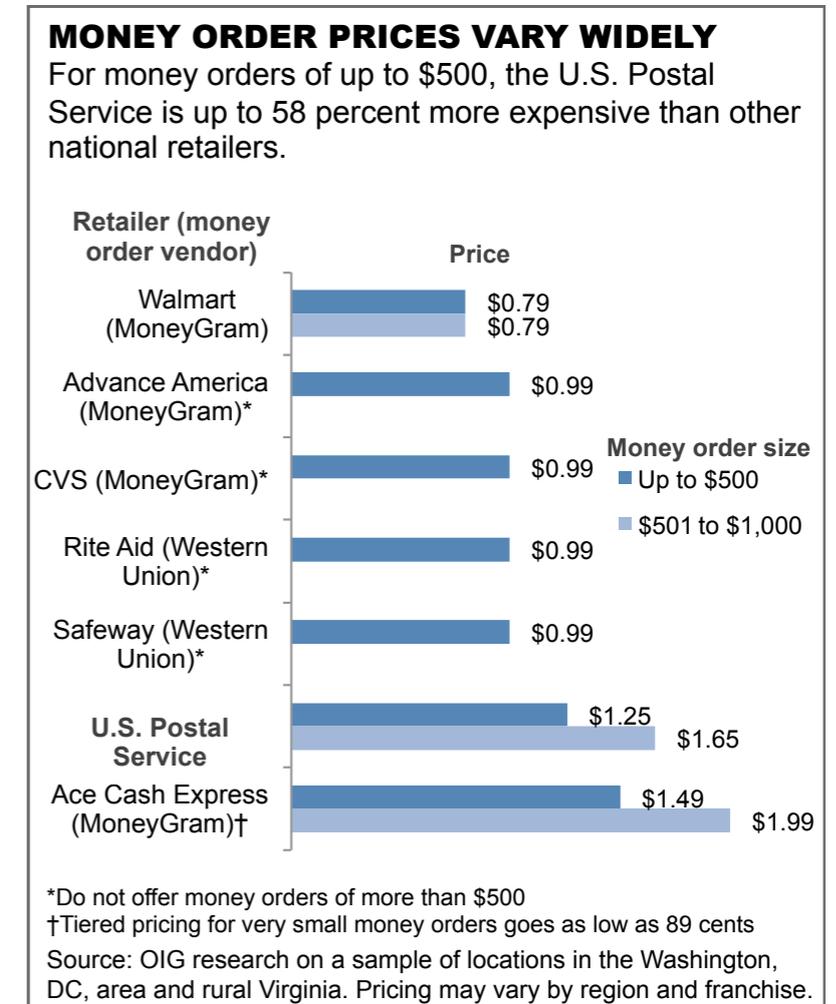
21 Ibid., p. 146 and Securities and Exchange Commission, *MoneyGram International, Inc. Form 10-k Annual Report*, p. F-47.

Federal Deposit Insurance Corp. (FDIC) survey data from 2013 estimate that 21 million households had purchased a non-bank money order in the previous year.²² Of those households, 30 percent said they usually buy their money orders at the post office. However, among the 10 million households that had used money orders in the last 30 days — those most likely to be heavy users — only 23 percent used postal money orders. This suggests that postal money orders have a higher usage rate among infrequent users. In 2011, the FDIC did the same study.²³ Between 2011 and 2013, the OIG estimates that the overall number of money orders sold fell 3 percent — though the Postal Service accounted for all of that decline. Our analysis suggests that the number of non-postal money orders sold actually increased slightly between 2011 and 2013. Details of that analysis are in [Appendix B](#).

While the Postal Service does not appear to sell as many money orders as Western Union and MoneyGram, it generates at least as much money order revenue as both of them combined.²⁴ Much of that has to do with pricing. The Postal Service charges a \$1.25 fee for money orders of up to \$500 and \$1.65 for larger money orders up to \$1,000.²⁵ Western Union and MoneyGram agents have some latitude in setting money order prices, which vary widely. Based on inquiries at agents around Washington, DC, and in rural Virginia, a money order could cost as little as 75 cents or as much as \$2.49. For example, Kash King, a local check cashing establishment in the Washington, DC, area, brands itself as “Home of the 75 Cent Money Orders.”²⁶ Many providers beat the Postal Service on price, as Figure 5 illustrates. A 2011 Urban Institute study conducted on behalf of the Postal Regulatory Commission notes that some private sector agents seem to use money orders for “promotional value” — intentionally pricing them below cost and sometimes even issuing them for free — presumably in order to attract customers to other more profitable products.²⁷

Several other providers employ a tiered pricing system. For instance, payday lender ACE Cash Express charges 89 cents for money orders up to \$99, 99 cents for amounts from \$100 to \$249, \$1.49 for amounts from \$250 to \$499, \$1.99 for amounts from \$500 to \$999, and \$2.49 for \$1,000 money orders.²⁸ In this case, the Postal Service charges a higher price for money orders of less than \$250, but a lower price for larger money orders.

Figure 5: Money Order Pricing



22 Based on OIG analysis of FDIC data. FDIC, *2013 FDIC National Survey of Unbanked and Underbanked Households*, 2014, <https://www.fdic.gov/householdsurvey/>. Raw data was obtained here: <https://www.economicinclusion.gov/downloads/index.html>.

23 Ibid.

24 Neither Western Union or MoneyGram report sales volume of money orders. This statement is based on estimates using the number of households that use non-postal money orders.

25 U.S. Postal Service, *Sending Money Orders*, <https://www.usps.com/shop/money-orders.htm>.

26 Kash King website: <http://www.kashking.com/>.

27 Urban Institute, *Transportation and Price Leadership Role of the Postal Service*, August 16, 2011, http://www.prc.gov/sites/default/files/archived/Price_Leader_Report.pdf, p. 17.

28 Based on calls made to three ACE Cash Express locations in the Washington, DC, area in November 2015.

Small businesses use postal money orders as a reliable, inexpensive way to receive payment.

If the Postal Service sought to increase the number of pricing tiers for money orders, there is a precedent: from 1966 to 1985, there were three pricing levels for postal money orders.²⁹ Additionally, other posts, including An Post in Ireland and the Post Office in the United Kingdom, have a four-tiered pricing system.³⁰ In both cases, small value postal money orders are comparatively cheaper in Ireland (87 cents) and Great Britain (73 cents) than in the United States.³¹

Although the price of a postal money order has changed nine times since 1988, those price hikes have actually not even kept pace with inflation, causing the real price to decline 17 percent over that period.³² Unlike private providers, the Postal Service faces significant regulatory hurdles for all price changes to money orders.³³

Many View Postal Money Orders as a Premium Product

Postal money orders have several real and/or perceived advantages over other money orders. For one, they can be cashed for free at any post office, provided funds are available.³⁴ None of the 14 pharmacies, convenience stores, supermarkets, or big box stores contacted by the OIG would cash even the money orders they sell themselves. Some recipients of payments and banks treat postal money orders like cash, while they treat private label money orders like checks that must first clear before funds are available.³⁵ Thus, postal money orders serve the needs of businesses looking for secure and reliable payment options.

The Postal Service also is one of the few national providers that sells money orders over \$500 in face value.³⁶ The size is important, as many payments, particularly rent/mortgage, often are greater than \$500. The post office also is one of the relatively few places that allow customers to pay for a money order with a debit card.³⁷ This can be especially helpful to the growing number of Americans who receive their pay via a prepaid card, such as the 5 million federal benefits recipients who use the Treasury Department's Direct Express prepaid debit card.³⁸ They collectively spent \$297 million at the Postal Service in 2014 — more than they spent at any other merchant save for one, which was an undisclosed large national retailer.³⁹

The perceived superiority of postal money orders shows up in message board discussions when ecommerce buyers and sellers debate the merits of different payment options. "I only accept USPS money orders. You cash them at the post office and they can tell right away before you ship the item if it is good. I have never had a problem with them," wrote an Etsy seller.⁴⁰ "USPS money orders are the safest you can get. Take it to the Post Office, get CASH, hand the package to the clerk. Unlike depositing a money order in your bank account, once the [post office] hands you cash, you are good to go," wrote an eBay seller.⁴¹ Though anecdotal, these opinions from real users help illustrate why many prefer postal money orders to others.

29 Based on a money order fee history provided by the Postal Service.

30 An Post, *Money Transfers*, <http://www.anpost.ie/AnPost/MainContent/Personal+Customers/Money+Matters/Money+Transfer/> and Post Office, *Postal Orders*, <http://www.postoffice.co.uk/postal-orders>.

31 Yahoo Currency Converter, January 15, 2016, <http://finance.yahoo.com/currency-converter/#from=USD;to=EUR;amt=1>.

32 OIG analysis of Postal Service and Bureau of Labor Statistics data: <http://www.bls.gov/cpi/cpid1512.pdf>, p. 74.

33 Money orders are classified as a "market dominant" product.

34 U.S. Postal Service, *Domestic Mail Manual: S020 Money Orders and Other Services*, <http://pe.usps.com/Archive/HTML/DMMArchive0810/S020.htm>.

35 For example, the Federal Bureau of Prisons puts a 15-day hold on payments to inmates made with non-postal money orders, but makes the funds from postal money orders available immediately, <https://www.bop.gov/inmates/communications.jsp>.

36 Of the locations contacted in this study, only Walmart and ACE Cash Express offered high dollar money orders.

37 Of the locations contacted in this study, all but two restricted payment for money orders to cash only.

38 Bureau of the Fiscal Service, Direct Express Debit MasterCard Card Program: 94 percent Customer Satisfaction Rating for Sixth Consecutive year, March 2015, http://www.fiscal.treasury.gov/fsservices/indiv/pmt/dirExpss/dirExpss_blog.htm and Pew Charitable Trusts, *Why Americans Use Prepaid Cards*, February 2014, http://www.pewtrusts.org/~media/legacy/uploadedfiles/pes_assets/2014/prepaidcardssurveyreportpdf.pdf, pp. 1–3.

39 Based on a June 19, 2015 conversation with the director who oversees Direct Express. The program advises users to use their Direct Express card to purchase postal money orders to pay rent, <https://fiscal.treasury.gov/godirect/social-security-federal-benefits-direct-deposit/directexpress/index.html>.

40 Etsy, *Should I Accept a USPS Money Order?*, <https://www.etsy.com/teams/7718/questions/discuss/12470627/>.

41 eBay, *Should I Accept a USPS Money Order as Payment for an Item?*, <http://community.eBay.com/t5/Archive-Miscellaneous/Should-I-accept-USPS-money-order-as-payment-for-an-item/td-p/18359545>.

The Postal Service offers fewer alternative financial services compared to other money order providers.

One of the Postal Service's biggest shortcomings in the money order space is its thin menu of additional alternative financial services compared to other providers. Most Western Union and MoneyGram agents, including pharmacies and convenience stores, also offer money transfers, bill pay, and prepaid cards. Many agents, including Walmart and standalone financial providers like ACE Cash Express, also offer check cashing and/or small dollar loans. FDIC data show that money order users who use multiple alternative financial services are significantly less likely to buy their money orders from the Postal Service. For example, 57 percent of households that use check cashing also use money orders, but only 20 percent of those that use both services buy their money orders from the Postal Service — presumably in large part because post offices do not offer payroll check cashing.⁴² While the Postal Service offers some money transfers, prepaid gift cards, and limited cashing of Treasury checks, the existence of these services is not well known and sales are miniscule. If post offices were more of a one-stop-shop for affordable alternative financial services, this convenience could save customers valuable time and money.

Most Payments Are Going Electronic. Money Orders Could Too.

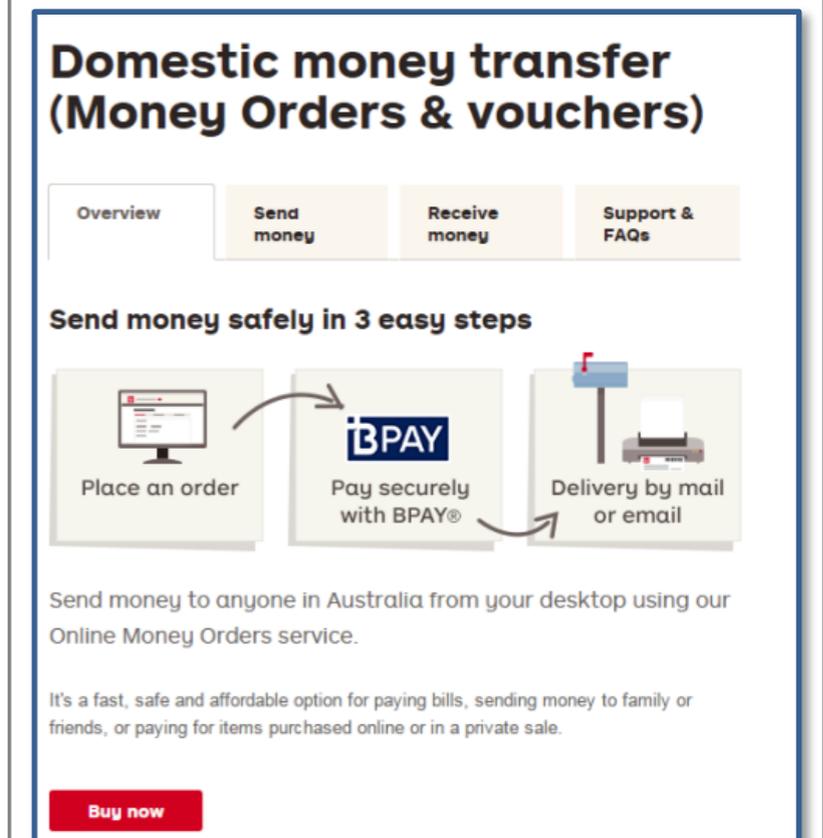
Americans are choosing to pay more of their bills electronically, which can be more convenient and inexpensive for some. This includes direct payments made through billers' websites and bank-based bill pay services. If the Postal Service introduced an electronic money order, as many foreign posts have done, it may be in a better position to serve the needs of individuals and businesses looking for modernized payment options.

For instance, Australia Post lets customers purchase money orders through its website, as shown in Figure 6. Customers can opt to have a paper money order printed and mailed or have a voucher emailed to the recipient. Vouchers can be redeemed for cash at the nearest post office.⁴³ Several other foreign posts also offer payment services through web or mobile portals, including Israel Post, Swiss Post, and Poste Italiane.⁴⁴ Online money orders are generally not available in the United States. At least one company, Payko, made a short-lived entrance to this market.⁴⁵ However, it did not have the reach, trust, or built-in customer base of the Postal Service, which may have a strong market opportunity to offer such a product.

Figure 6: Australia Post's Online Money Order

FOREIGN POSTS OFFER ELECTRONIC MONEY ORDERS

Some posts abroad, including Australia Post, offer electronic money orders. The U.S. Postal Service could introduce a similar product.



Source: Screenshot from <http://auspost.com.au/money-insurance/domestic-money-transfer.html>.

⁴² OIG analysis of 2013 FDIC data.

⁴³ Australia Post, *Domestic Money Transfer (Money Orders & Vouchers)*, <http://auspost.com.au/money-insurance/domestic-money-transfer.html>.

⁴⁴ Israel Post, *Postal Check (Money Orders) in Israel*, <http://www.israelpost.co.il/postshirut.nsf/misparide/102?OpenDocument> and PostFinance (the financial services unit of Swiss Post), *Domestic Payments*, <https://www.postfinance.ch/en/priv/prod/pay/national.html> and Poste Italiane, *Payments*, <http://www.poste.it/bancoposta/pagamenti/pagamenti.shtml>.

⁴⁵ Justin Pritchard, "Why You Can't Find Money Orders Online," *About.com*, November 26, 2014, <http://banking.about.com/od/MoneyOrders/a/Why-You-Can-T-Find-Money-Orders-Online.htm> and Alia Hoyt, "Can You Get a Money Order Online?" *HowStuffWorks.com*, October 10, 2011, <http://money.howstuffworks.com/personal-finance/online-banking/money-order-online.htm>.

In an effort to bundle money orders with core mail products, several international posts promote the ability to deliver money orders to recipients through the mail. While the typical time for delivery is 3 to 5 business days, Correos, the Spanish postal operator, also offers the option to send a money order via express service. For a fee of 15 euros (about \$17) plus 1.25 percent of the face value, Correos will deliver the money order the same day in certain large cities and overnight anywhere else in the country.⁴⁶ Meanwhile, India Post offers a slightly different method of delivery for money orders as an option for consumers. With its Instant Money Order, it allows customers to purchase a money order at any post office, but instead of a physical money order, the customer receives a unique code that can be transmitted to the recipient via phone, email, or text message and then used to obtain cash at select India Post retail locations.⁴⁷

A Look at Money Order Users

People from all walks of life use money orders, and they use them in different ways and for different reasons. The U.S. Census Bureau conducts a biennial survey for the FDIC on the financial lives of Americans who are partially or completely left out of the mainstream financial system — including those who use money orders.⁴⁸ The OIG analyzed the raw survey data to glean significant insights into this population.⁴⁹ The OIG also conducted interviews with 50 money order users at post offices in the Washington, DC, area.⁵⁰

Heavy Users Comprise Three-Fourths of Postal Money Order Purchases

An estimated 6.4 million households bought postal money orders in 2013, buying an average of 16 money orders per year, but that is not the complete picture.⁵¹ The OIG estimates that 35 percent of users accounted for three quarters of sales, buying an average of three postal money orders per month.⁵² Users interviewed by the OIG said they use money orders to pay monthly bills, with the most popular being rent/mortgage payments (78 percent), utilities/ unspecified bills (58 percent), and insurance payments (10 percent).

Figure 7: Postal vs Non-Postal Money Order Users

POSTAL VS NON-POSTAL MONEY ORDER USERS

Among households that purchased a money order in the past 12 months, those that bought them at post offices have some key differences from those that purchased non-postal money orders.

	Used postal money orders*	Used non-postal money orders*
Number of households	6,351,489	14,539,122
Have a bank account	86%	76%
Use check cashing*	15%	25%
Use international remittances*	8%	11%
Use pawn loans*	5%	11%
Use payday loans*	3%	7%
Use prepaid cards*	14%	20%
Use refund anticipation loans*	3%	6%
Use auto title loans*	2%	3%
Are under age 35	20%	35%
Are over age 54	38%	24%
Have a college degree	27%	17%
Are unemployed	6%	8%
Have \$50,000+ income	39%	28%
Have a smartphone	57%	61%
Own their home	56%	38%
Are immigrants	15%	17%

*In the past 12 months

Source: OIG analysis of 2013 FDIC data on households that had used money orders in the previous 12 months.

46 Correos, *Giro Nacional Money Remittance*, http://www.correos.es/ss/Satellite/site/servicio-1349171446591-envio_dinero_servicios_financieros/detalle_servicio-sidioma=en_GB and Yahoo Currency Converter, January 15, 2016, <http://finance.yahoo.com/currency-converter/#from=USD;to=EUR;amt=1>.

47 India Post, *Instant Money Order (iMO)*, <http://www.indiapost.gov.in/IMOS.aspx>.

48 FDIC, 2013 FDIC National Survey of Unbanked and Underbanked Households, p. 4.

49 This was a very large sample survey, making it highly statistically valid.

50 This was a non-scientific survey conducted July 2, 2015 at two Washington, DC, area post offices. It may not represent all money order users.

51 The Postal Service sold 102.3 million money orders in FY 2013. U.S. Postal Service, "USPS-FY13-4 - FY 2013 Market Dominant Billing Determinants," Postal Regulatory Commission Docket No. ACR2013, December 27, 2013, <http://www.prc.gov/dockets/document/88662>.

52 This assumes that households that had purchased a money order in the past year, but not in the past 30 days, bought an average of six money orders per year. Households that purchased a money order in the past 30 days bought an average of 35 per year. For the full methodology behind this estimate, see [Appendix B](#).

Lower income households are more likely to use multiple alternative financial services and may seek to buy their money orders from providers with a broader range of financial services.

Users also tend to buy more of their money orders at the end of the week, when many get paid, and at the beginning of the month when rent is due. Sales spike significantly during those times.⁵³

Money Order Users Are Demographically Diverse

Households that use money orders are diverse by age, household income, and race/ethnicity — though they do stand out in some key ways.

Age

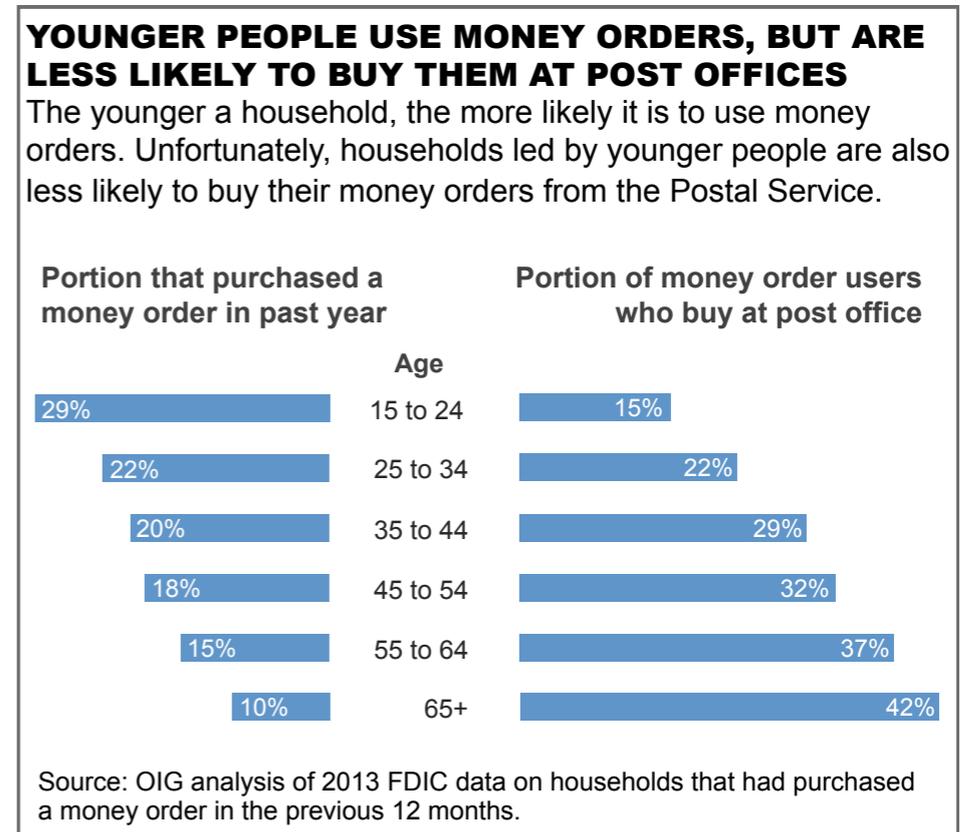
It is not surprising that younger households pay a much greater portion of their bills electronically than older generations, but it is surprising that young folks are also significantly more likely to use money orders than older households.⁵⁴ This suggests that, for the relatively few bills younger Americans pay in paper form, many may prefer to pay them with money orders rather than personal checks.

Young folks' heavy utilization of money orders bodes well for the future of the product. Unfortunately for the Postal Service, households led by younger people are significantly less likely to buy their money orders at the post office, as is illustrated in Figure 8. There may be several reasons for this. Younger people might have less familiarity with the Postal Service, as they use the mail less frequently than older generations.⁵⁵ Also, the Postal Service does not offer any online or digital component to its money orders, and younger folks tend to lean more on technology than older Americans.

Household Income

The lower a family's income, the more likely it is to have purchased a money order in the past year. It is especially more likely to have bought one in the past 30 days, yet higher income families are still significant customers. Nearly one-third of those who used a money order in the past year had household income of at least \$50,000. Among those who use money orders, higher income households are more likely to buy their money orders at the post office than lower income families. This, again, may be because lower income households are more likely to use multiple alternative financial services, and may find it more convenient to buy their money orders from providers that offer a broader range of financial products. See [Appendix C](#) for more detailed statistics on money order users and how those who buy their money orders at the post office differ from those who buy money orders elsewhere.

Figure 8: More Young Americans Use Money Orders



⁵³ OIG analysis of data from the Postal Retail Data Mart.

⁵⁴ U.S. Postal Service, *The Household Diary Study: Mail Use & Attitudes in FY 2014*, p. 36.

⁵⁵ *Ibid.*, pp. 31, 39, and 44.

Eight-two percent of postal money order users have a checking account.

Seventy-one percent of postal money orders are purchased with cash.

Most Money Order Users Could Write Checks Instead. Why Don't They?

Eighty-six percent of postal money order users have a bank account, and 82 percent have a checking account.⁵⁶ Why would they bother going to the post office and paying \$1.25 to \$1.65 for a money order when they could spend a fraction of the time and money by writing a check from the comfort of their own homes? There is no hard data on this, but based on conversations with money order users and research on other alternative financial services, we have some educated guesses.

- **Money orders do not lead to overdrafts:** For those with low balances on their bank accounts, there is legitimate anxiety about overdraft fees, which typically cost about \$35 for each offense.⁵⁷ And they can quickly compound, with the average overdraft costing consumers a total of \$69 in fees — enough to throw a wrench in a family's budget.⁵⁸ By comparison, a \$1.25 money order fee is very affordable.
- **Many families prefer to use all cash budgets:** A popular (and effective) budgeting technique is to pay for everything in cash, which makes it more difficult to overspend.⁵⁹ Many families on all cash budgets use money orders to pay bills — which would help explain why customers purchased 71 percent of the postal money orders sold in 2015 with cash.⁶⁰
- **Personal checks are much less secure than money orders:** When you write someone a personal check, you are giving them all the information they need to withdraw money fraudulently from your account.⁶¹ For payments made to entities you do not necessarily trust, money orders are a much safer alternative.
- **Money order payments are guaranteed:** While checks can bounce, money orders cannot. Their payments are guaranteed, and they never expire.⁶² For important bills, many money order users are willing to pay for that peace of mind.
- **Some billers ask to be paid with postal money orders:** In interviews with money order users, 22 percent said the entity they were paying asked to be paid with a postal money order. This includes some landlords, online sellers and government entities.⁶³

⁵⁶ OIG analysis of 2013 FDIC data.

⁵⁷ The Pew Charitable Trusts, *Overdrawn: Persistent Confusion and Concern About Bank Overdraft Practices*, June 2014, http://www.pewtrusts.org/~media/assets/2014/06/26/safe_checking_overdraft_survey_report.pdf, p. 1.

⁵⁸ Ibid.

⁵⁹ Kim Tracy Prince, *American Family Budget: Going All-Cash, All the Time*, Mint Life, January 10, 2014, <https://blog.mint.com/goals/american-family-budget-going-all-cash-all-the-time-0114/> and Lampo Licensing, *Dave Ramsey's Envelope System*, September 5, 2009, <https://www.daveramsey.com/blog/dave-ramseys-envelope-system/>.

⁶⁰ OIG analysis of data from the Postal Service's Retail Data Mart, which includes only POS and RSS locations.

⁶¹ Bob Sullivan, "Easy check fraud technique draws scrutiny," *NBC News*, May 24, 2005, http://www.nbcnews.com/id/7914159/ns/technology_and_science-security/t/easy-check-fraud-technique-draws-scrutiny/#.VovxMIWrRpg.

⁶² While postal money orders never expire, privately issued money orders may expire or decrease in value if not cashed within a certain period of time. U.S. Postal Service, "Money Orders: What Are They?" <https://www.usps.com/shop/money-orders.htm> and Western Union, "Money Order Expiration," https://thewesternunion.custhelp.com/app/answers/detail/a_id/58/~money-order-expiration.

⁶³ The Landlord Protection Agency, "Tenant wants to pay rent with a money order," May 10, 2012, <https://www.thelpa.com/lpa/forum-thread/255154/Tenant-wants-to-pay-rent-with-money-order.html>; GunsAmerica, "GunsAmerica endorses USPS as exclusive form of non-credit card payment," October 11, 2011, <https://www.gunsamerica.com/blog/gunsamerica-endorses-usps-as-exclusive-form-of-non-credit-card-payment/>; Game Dude, "How to place an order with Game Dude," www.gamedude.com/mailorder.html; and Consulate General of Brazil in Atlanta, "Payment Options," http://atlanta.itamaraty.gov.br/en-us/payment_options.xml.

The best practices of top performing post offices for money order sales could hold important lessons for other post offices.

Best Practices for Money Order Sales

As mentioned earlier, about 1,200 high volume post offices have seen a 10 percent or greater jump in money order sales since 2012.⁶⁴ These high performing locations collectively grew their money order fee revenue by 20 percent. Their overall walk-in revenue was essentially flat, suggesting that money orders — which were present in 15 percent of the revenue transactions at these locations — were a particular area of strength. On the flipside, about 500 high volume post offices have seen a 20 percent or greater decline in money order sales over the past 3 years. While location and external conditions explain some of the differences between the low and high performers, sales execution may also be a significant factor. The best practices of high performers may hold some lessons for other post offices that may not be living up to their full potential for money order sales and customer service. Here is a look at one of those top performers.

A Stand-Out Post Office: Frederick Douglass Station

Frederick Douglass Station in Southeast Washington is the top seller of money orders in the Capital District, which includes the District of Columbia and parts of Maryland.⁶⁵ Money orders were present in 41 percent of the transactions at the post office in FY 2015, when it sold more than 40,000 of them with a face value of more than \$11 million. Its money order fee revenue was up 23 percent from 2012, directly accounting for 11 percent of walk-in revenue — though that figure is understated.⁶⁶

There are many nearby options for purchasing money orders. The bustling shopping center where it operates has three bank branches and a grocery store that sells money orders and performs money transfers. The check cashing chain store two blocks away also sells money orders. Despite many alternatives, money order purchasers continue to flock to this location. Here are some of the practices that contribute to its success.

- **A dedicated money order line:** The post office has a separate line for customers buying money orders or stamps, which helps improve customer flow and efficiency of operations, ensuring that those in line for packages or mail pickup do not have to wait behind money order customers. If there is no one in the packages line, the clerk at that window will serve the next money order customer. When lines get really long, such as near the beginning of the month, there is a third retail window that staff will open up to help keep the wait time down.
- **A specialized clerk:** The money order line is generally staffed by a clerk with extensive experience selling money orders, which is helpful in multiple ways. First, they know how to process the money orders quickly and efficiently. They also know their customers, many of whom are regulars who come in month after month. These skills are well within the grasp of clerks at high traffic money order locations.

Figure 9: Money Orders Line at Frederick Douglass Station



Money orders are present in 41 percent of the transactions at Frederick Douglass Station (above), a post office in Washington, DC.

⁶⁴ High volume post offices are those in the top 25 percent of all post offices for money order fees.

⁶⁵ Based on OIG analysis of money order data from the Accounting Data Mart.

⁶⁶ The OIG estimates that every \$1 in money order fees at Frederick Douglass Station led to an additional 53 cents in indirect revenue, which includes escheatment, stamped envelope sales, and postage from mailed money orders.

Nearly half of the 50 postal money order users interviewed by the OIG said they would use an online or mobile app to buy money orders.

- **Customers have a good place to fill out their money orders:** Many customers fill out their money orders at the post office, so that they can mail them on the spot. To accommodate clientele who may prefer to sit, post office staff put in a table and chairs, which are very popular with money order customers.
- **Sharing information on suspicious activity:** When people try to buy or cash money orders in a way that seems suspicious, staff file suspicious activity reports with the appropriate regulator. Postal staff also share information with colleagues at other nearby post offices where criminals may try the same scheme. Clerks also may alert the Postal Inspection Service, which investigates money order fraud by postal customers. Specialized clerks can be particularly good at spotting potential fraudsters.

Suggestions for Improving Service and Enhancing Revenue

Given the attractiveness of the money order business and the value it brings to the American people, the Postal Service could take a series of initiatives to improve service and better meet the modern needs of those who purchase money orders and the businesses that accept them as payment.

Assign a National Product Manager to Strategically Guide the Money Order Business

The Postal Service has not tasked anyone with strategic management of money orders.⁶⁷ Such a person, who should have deep knowledge of the payments industry, could study the changing payments needs of people and businesses, ensuring that postal money orders meet those needs. They also could work to understand and improve the product's position in the marketplace and implement the suggestions in this white paper. Given that postal money orders generate \$21 billion a year in payments volume and are present in 10 percent of all retail revenue transactions at post offices, they seem to warrant a dedicated product manager with expertise in the payments space.

Consider Potential Modernizations for Money Orders

Sell Paper Money Orders Online and through a Mobile App

Usps.com gets some 1.5 billion visits per year.⁶⁸ On the site, one can do everything from ordering stamps to printing postage through Click-N-Ship, which customers used to print more than 50 million package labels in 2015, generating more than a half a billion dollars in revenue.⁶⁹ Additionally, customers downloaded the USPS Mobile app 1.7 million times and made 77 million visits to the mobile website *m.usps.com*.⁷⁰ All told, 46 percent of the Postal Service's retail revenue comes from alternative access channels like *usps.com* and USPS Mobile.⁷¹ But to buy a postal money order, customers generally must do so in person at a post office.⁷² Among the 50 money order users interviewed for this white paper, nearly half said they would be likely to use an app or online tool that allowed them to purchase a money order and have it delivered to a biller. It also could attract more young Americans, many of whom are heavy users of non-postal money orders.

67 Based on conversations with Postal Service officials.

68 U.S. Postal Service, "Size and scope," <https://about.usps.com/who-we-are/postal-facts/size-scope.htm>.

69 Ibid.

70 U.S. Postal Service, "The Post Office Is Always Open – USPS.com and USPS Mobile," <https://about.usps.com/who-we-are/postal-facts/always-open.htm>.

71 U.S. Postal Service, "Size and scope."

72 Money orders also can be purchased from rural mail carriers, who accept payment and have the customer fill out a form. The customer can provide a self-addressed stamped envelope to receive the money order, or the carrier can deliver it on their next visit. U.S. Postal Service, *S020 Money Orders and Other Services, Postal Explorer*, December 9, 2004, <http://pe.usps.com/text/dmm/S020.htm>.

Compared to money orders purchased at post offices, paper money orders purchased through digital channels could be more profitable and would generate more mail volume.

Electronic money orders could help small online merchants save money on processing fees.

Here is how such a service might work. Customers use a mobile app 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/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.⁷³

The clerk's time at the window comprises about two-thirds of the current costs associated with money orders.⁷⁴ Printing money orders at central facilities could introduce significant efficiencies, making the product even more profitable for the Postal Service and generating more mail volume, given that all money orders purchased through this channel would be mailed. In addition, the online channel would reduce opportunities for fraud or money laundering.⁷⁵

This process also could greatly strengthen the Postal Service's relationship with money order users. Under the current model, money orders are anonymous, one-off transactions that do not offer the Postal Service an opportunity to have an enduring connection with the customer. The online/mobile channel could allow the Postal Service to communicate with its money order users about their experience and make customer-centric improvements to the product and sales process.⁷⁶

The OIG estimates that adding the digital sales channel for paper money orders, along with active strategic management and marketing, could lead to annual money order revenue of \$238 million after 5 years — 59 percent higher than it would otherwise be if current trends continue. The Postal Service would gain \$232 million in cumulative additional revenue and \$151 million in contribution over that 5-year period. These estimates include the value of postage from mailed money orders. For the full accounting and assumptions behind these figures, see [Appendix D](#). Additionally, the Postal Service would likely not need the Postal Regulatory Commission's approval to begin selling paper money orders through digital channels.

Introduce Electronic Money Orders

In addition to allowing customers to purchase paper money orders online, the Postal Service also could offer fully-electronic money orders — as many foreign posts have done. There would be capital costs to set up new systems for this innovation, though the Postal Service could reduce those costs by partnering with a third party. And while it would require the approval of the Postal Regulatory Commission, electronic money orders could truly bring this product into the digital age, allowing the Postal Service to meet the modern payment needs of its customers.

One potential way to do this would be for the Postal Service to facilitate direct payments to large billers, such as utility, insurance, credit card, and mortgage companies. Customers could select from a menu of participating billers, while seeing how quickly their payment would arrive. The Postal Service could partner with a third party to get a directory of large billers and their payment information, and the Federal Reserve could process the payments.⁷⁷ If the customer wants to pay a biller that is not on the list, the Postal Service could cut a paper money order and mail it.

73 The Kansas City Stamp Fulfillment Center or a similar facility could do this. Eventually, the Postal Service could move to place money order fulfillment centers in selected locations throughout the country and create each money order at the facility that is closest to the recipient. As a result, these payments could reach recipients days quicker than a money order that was mailed from a single central facility — a significant bonus for purchasers and recipients of money orders.

74 U.S. Postal Service, "USPS-FY15-2 - FY 2015 Public Cost Segments and Components," Postal Regulatory Commission Docket No. ACR2015, December 29, 2015, <http://www.prc.gov/dockets/document/94340>.

75 Most internal money order fraud happens at small post offices where the clerk manually registers money order sales. The automation of digital channel sales would make employee fraud much more difficult to perpetrate. In addition, having an electronic record of the purchaser and recipient could be a significant deterrent for money laundering.

76 Money order customers could opt-in to such communications and data collection as part of the online/mobile money order process.

77 The Federal Reserve, which processes paper postal money orders, facilitates electronic money transfers through the ACH system for the private sector. For the Fed to process such payments for the Postal Service, the two organizations would need to modify their agreement, according to Federal Reserve officials interviewed by the OIG.

Small investments at post offices could have a big impact on the customer experience.

Another approach would be to have the electronic money order purchaser provide the recipient's email address. The Postal Service could notify the recipient of the payment, giving them the option to have the funds transferred to their checking account or prepaid card, or to take their emailed voucher into a post office for cash. This could be particularly attractive for small online merchants who sell on sites such as eBay and Etsy. By receiving an electronic postal money order as payment, sellers could avoid the processing fees they must pay for other types of payments, which are often 2.9 percent of the sale price, plus a fee.⁷⁸ Sellers also could pick up their cash at a post office at the same time that they mail the merchandise to the buyer. Online sellers already do this with paper money orders, though an electronic version would allow them to receive their payment much more quickly.⁷⁹

Make Electronic Payments to Corrections Facilities

The Federal Bureau of Prisons, which tightly controls the channels through which millions of inmates and others can accept payments, accepts paper money orders and electronic payments sent through MoneyGram and Western Union.⁸⁰ These electronic transfers are priced three-to-eight times higher than paper money orders, creating a significant opportunity for the Postal Service to offer a more affordable electronic payment option for these citizens.⁸¹ There also is a particularly strong public policy argument to be made for the Postal Service to expand its payments services with respect to government entities, such as corrections facilities.

Optimize the Retail Experience at High Volume Money Order Offices

The retail experience is especially important at high volume money order locations, which account for three-fourths of all money order fee revenue.⁸² At these locations, money orders are present in an average of 14 percent of revenue transactions. Money order transactions can impact wait time for all customers. High volume money order post offices could minimize this by creating a dedicated money order line staffed consistently by a clerk with the expertise needed to process money orders more efficiently. Post offices with sufficient lobby space also could install a small table with a couple of chairs that customers can use to fill out their money orders. Postal staff also could ensure that they consistently stock all counters and spaces with pens. Ultimately, a minimal investment could have a huge impact on the customer experience and efficiency.

While it makes sense to focus efforts for improvement on underperforming high volume offices, stabilizing money order sales at those locations alone may not be enough to stop the bleeding. Consider this: while the bottom half of post offices for money order sales comprised just 6 percent of money order fee revenue in 2015, their plunge in sales was so great that it accounted for more than a quarter of the overall decline in money order sales since 2012. As such, it may be important to implement some nationwide, common sense changes that could also help stabilize sales at smaller post offices.

78 PayPal Help Center, "What are the fees for PayPal accounts?," <https://www.paypal.com/us/webapps/helpcenter/helphub/article/?solutionId=FAQ690>.

79 eBay, *Should I Accept a USPS Money Order as Payment for an Item?*

80 U.S. Department of Justice, *Correctional Populations in the United States, 2014*, January 21, 2016, <http://www.bjs.gov/content/pub/pdf/cpus14.pdf>, p. 1. JPay also is a significant player in corrections payments, though it works through a partnership with MoneyGram, as is explained here: <http://jpay.com/MoneyGram.aspx>.

81 Payments of \$1 to \$300 made online to the Federal Bureau of Prisons cost \$3.95 to \$9.95 at Western Union and \$5.95 to \$9.95 at MoneyGram, according to their online calculators: <https://www.westernunion.com/us/en/inmatehome.html> and <https://secure.moneygram.com/payBills/payment-options>.

82 This includes the approximately 8,000 post offices in the top 25 percent for money order sales.

Effective communication about the value of any money order innovations will be essential to their success.

Communicate the Existence of Postal Money Orders as Well as the Advantages of Postal Money Orders and Any Product Changes

The Postal Service appears to do little, if any, marketing of money orders. Targeted, effective communication could be essential to the success of money orders and any innovations. If, for example, the Postal Service begins selling money orders through a mobile app or offering electronic money orders, it could get the word out to existing money order users by passing out cards explaining the new offerings with every money order sale. Clerks also could be trained to tell all money order customers that they can now buy money orders from their phones and have them automatically delivered to the biller. In addition, the Postal Service could notify all My USPS customers and users of the USPS Mobile app of the services. It also could install posters and sales brochures in post offices and banner ads on *usps.com* that explain the advantages of the services, and that tout the benefits of paying with a money order rather than a check or debit card in this age of rampant identity theft. With more than 2 billion annual visits to post offices and *usps.com*, a tremendous number of current and potential money order users could see this information.⁸³ The Postal Service also could strive to increase billers' awareness of the advantages of accepting postal money orders as payment. Many of these communications efforts could be accomplished at minimal cost to the Postal Service.

Perhaps Pursue Money Order Discount Agreements With Prepaid Card Companies

Use of general-purpose reloadable prepaid cards grew by more than 50 percent between 2012 and 2014, with some 23 million adults regularly using them.⁸⁴ Many of these cards effectively serve as a replacement for a checking account, but without checks. When prepaid users need to make a paper-based payment, many turn to money orders. The Postal Service could negotiate discount agreements on money orders with prepaid card companies that encourage their customers to use postal money orders — similar to the postage discounts regularly negotiated with high-volume shippers.⁸⁵ These agreements may require approval by the Postal Service Board of Governors and the Postal Regulatory Commission. The prepaid provider would benefit by being able to offer their customers a new service and by ensuring that their customers use their prepaid card to purchase money orders; prepaid users would benefit by paying less for their money orders; and the Postal Service would benefit by becoming the paper-based payment provider of choice for many users of prepaid cards.

Ramp up Additional Alternative Financial Services Offerings

One of the Postal Service's shortcomings in the money order space is a lack of compelling complementary products. If the Postal Service overhauled and expanded its current menu of additional alternative financial services, including money transfers, prepaid gift cards, and limited check cashing, it could significantly benefit the many money order users who also use additional alternative financial services.

83 U.S. Postal Service, "Size and scope."

84 The Pew Charitable Trusts, *Banking on Prepaid: Survey of Motivations and Views of Prepaid Card Users*, June 2015, <http://www.pewtrusts.org/~media/assets/2015/06/bankingonprepaidreport.pdf>, p. 2.

85 There are complex rules surrounding these sorts of agreements, and the Postal Service would need to ensure that the increased volume from prepaid customers makes up for the cost of the discount.

Conclusion

The Postal Service has been offering money orders since the Civil War, but the product is facing significant challenges in the wake of widespread alternatives and shifts to electronic forms of payment. While the Postal Service has devoted virtually no marketing or strategic management resources to money orders, it remains among the Postal Service's more profitable businesses. Active strategic management and product innovations that help money orders meet the modern needs of the American people could reverse declines in money order volume. But time is of the essence. The number of postal money orders sold annually has fallen by a quarter in the past 5 years.⁸⁶ If the Postal Service does nothing, money order volume (and the mail volume that comes with it) will likely continue to decline. The longer the Postal Service waits to take action and modernize this important product, the smaller the impact of that action will be, and the fewer people and businesses that will benefit.

Management's Comments

Management reiterated their concerns with one of the potential enhancements to money orders that other posts have instituted — offering paper money orders online or through a mobile app, and having them printed at a postal facility and mailed to the recipient. Management also asked questions about and disagreed with some of the assumptions the OIG used to support the financial analysis in its hypothetical scenarios. In addition, management suggested a couple of areas in our paper where additional, minor clarifications could be beneficial.

See [Appendix E](#) for management's comments in their entirety.

Evaluation of Management's Comments

The OIG agrees with management that printing money orders at multiple postal facilities throughout the country could present some challenges. In our paper, the OIG analyzed a hypothetical scenario based on printing money orders at one centralized postal facility.

The OIG interviewed 50 money order users at post office locations in the Washington, DC, area to get a better sense of how and why people use money orders. In the absence of actual postal data on how many money orders are mailed, these interviews allowed us to develop a reasonable, conservative estimate of mailed money orders. All other aspects of our analysis were drawn from actual postal data sources, such as the Cost and Revenue Analysis report; the Revenue, Pieces, and Weight report; and the Accounting Data Mart.

Based on management's comments, we made slight modifications to the relevant cells in Tables 4 and 5 of Appendix D to clarify that the number of money orders mailed is an estimate and not an actual number. While this is described at multiple points in the paper, including in Appendix D, we thank management for bringing this need for clarification in the tables of the Appendix to our attention.

Our assumption regarding the future increase in the average money order fee is based on the actual average annual increase from 2010 to 2015. Postal data shows that the historical trend is largely caused by the increase in the size of the average face value of money orders. As more customers shift toward purchasing larger face value money orders, more of them will pay the Postal Service's current \$1.65 fee for money orders instead of the \$1.25 fee.

⁸⁶ Postal Service Cost and Revenue Analysis reports, 2010–2015.

Finally, it is important to note that we did not receive any formal request to provide supporting data for the hypothetical fully-electronic money order scenario and, further, that we did not conduct any such analysis in this paper. We included financial estimates for electronic money orders in a previous paper. If management is interested in that analysis, we would be more than happy to discuss it.

Appendices

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Appendix A: Statistical Methodology for Underperforming Post Office Analysis

The OIG created a multiple linear regression model to examine factors that explain the differences in money order fee revenue between high performing and low performing post offices. The model was cross-sectional using variables that were either 4- or 5-year averages taken over the period ranging from 2010 to 2015. The dependent variable — a 4-year average of money order fee revenue from each post office from the years 2012 to 2015 — was regressed on an array of explanatory variables, including both exogenous and endogenous factors, and estimates the demand for money orders as a function of those factors. In order to represent a similar period of time, the independent variables were also measured using multi-year data where appropriate, such as Census 5-year estimates (2010-2014) for demographic variables. The exogenous independent variables examined were the proximity of the post office to another money order provider (Walmart); the total population in the ZIP Code in which the post office is located; the percentage of residents at or below the poverty line in the ZIP Code in which the post office is located; and the percentage of the population with education beyond the high school level in the ZIP Code in which the post office is located. The two endogenous factors examined were the post office's average yearly walk-in revenue and a dummy variable indicating whether the post office was a part of the POST Plan. All of these variables were significant predictors of money order fee revenue; however, a close examination of the scatterplot for the distance between a post office and a Walmart location revealed an inconclusive relationship despite a small p-value. Therefore, the final regression model, shown in Table 1, does not include the proximity to a Walmart.

Of the 32,544 post offices with some money order revenue during the three-year study period, only 25,782 had complete data for all variables and we used these as the measured data set. Data about money order fee revenue, walk-in revenue, and the POST Plan were obtained from the Postal Service Accounting Data Mart, while population, poverty, and education data were taken from U.S. Census Bureau 5-year averages for the year 2014. Data about Walmart locations came from Esri's business analyst database.

Table 1: OLS Regression Model for Average Money Order Fees

Dependent Variable: In (Average Money Order Fee Revenue)	Coefficient	Robust Standard Error	t-statistic	Pr > t
Walk-In Revenue	0.00000103	8.330612E-8	12.31	<.0001
Population	0.00001377	0.00000145	9.49	<.0001
Percent in Poverty	0.03831	0.00137	27.98	<.0001
Percent Above High School Education	-0.01303	0.00086921	-14.99	<.0001
POSTPlan	-1.58987	0.02085	-76.25	<.0001
Intercept	7.20341	0.02822	255.28	<.0001
<i>Adj-R²</i>	0.6073			
<i>N</i>	25782			

The purpose of the regression model was to serve as a way to identify post offices that were underperforming in money order sales. To do this, the model identified approximately 4,300 post offices where predicted fee revenue exceeded actual fee revenue. Examining a scatter plot of the model prediction versus the actual money order fees, the model appears to be a generally consistent predictor with only a few outlier predictions, as is illustrated in Figure 10.

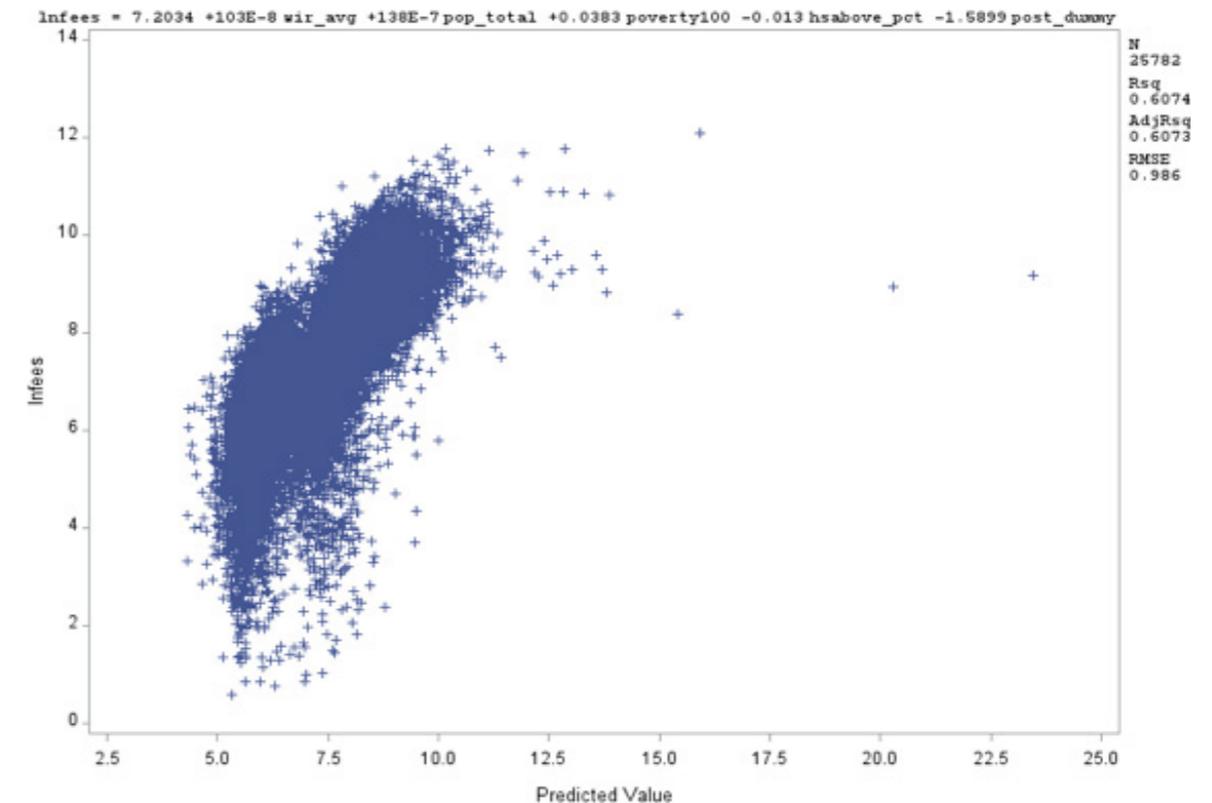
Regression Diagnostics

The distribution of the dependent variable was highly non-normal, which causes problems for ordinary least squares regression. As a result, the dependent variable was transformed using the natural logarithm. Additionally, a scatterplot of the residuals revealed moderate heteroskedasticity; therefore, heteroskedastic robust standard errors were used to compensate. Lastly, there was the possibility that some of the independent variables could display multicollinearity, particularly the variables for education and poverty. Although the correlation between these two variables was moderate ($r = 0.37$), variance inflation factors for both independent variables were below the upper threshold of 2, indicating that any multicollinearity present does not have a substantial effect on the standard error calculations, making a type 1 error unlikely.

Underperforming Post Offices Analysis Using Regression Results

Using the predictions generated from the above regression model, about 4,300 post offices from the high-sales quartiles (1 and 2) were identified where predicted money order fee revenue exceeded actual revenue. Of this subset, the 1,000 post offices with the largest difference between predicted and actual revenues were identified and projections of annual revenue for the years 2016 to 2020 were calculated under two different scenarios. The first scenario involved current declines continuing at the pace displayed from 2012 to 2015. These amounts were calculated using the compound annual growth rate for all 1,000 underperforming post offices. Under the second scenario, the assumptions included the possibility for growth in money order fee revenues. For the first year, growth remained flat while in the second year, money order fee revenues grew 5 percent. In the final 3 years, fee growth remained steady at 10 percent each year. For each scenario, escheatment revenue was added at the constant rate of 29.33 percent per year, which was the average for escheatment as a proportion of overall fee revenue between 2010 to 2015. The difference between revenues in scenario 1 and scenario 2, aggregated over the 5-year period, produced the \$9,035,531 estimate of potential revenue gained from increasing money order sales at this small selection of underperforming locations.

Figure 10: Scatterplot of Predicted vs. Actual Money Order Fees



Appendix B: Estimating the Postal Service’s Share of Money Orders Sold

There is no definitive accounting of the total number of money orders sold in the U.S., as private sector providers do not publish their sales volumes. To estimate the size of the money order pie and of the Postal Service’s share of it, the OIG relied on FDIC data on households that use money orders, publicly available postal data, and assumptions about the average number of money orders different types of users purchase. The below analysis explains our methodology.

Frequent vs Intermittent Users

In 2013, the FDIC surveyed households that use money orders and identified those that had purchased a money order in the past 30 days. These households are likely “frequent users.” The survey also identified households that had purchased a money order in the past year, but not the past 30 days. These are likely “intermittent users.” The FDIC also asked households where they usually purchase their money orders, showing that 2.2 million frequent user households and 4.1 million intermittent user households typically bought their money orders at the post office. We know that the Postal Service sold 102.3 million money orders in 2013 — an average of 16 per household. Clearly, frequent users buy more than intermittent users. To estimate how that breaks down, the OIG created a range for the average number of money orders intermittent user households might purchase annually — low (three), medium (six), and high (10). We then calculated the number of money orders frequent user households would have to purchase under each scenario to bring the total to 102.3 million, as Table 2 illustrates.

Table 2: Estimating the Number of Postal Money Orders Purchased by Frequent and Intermittent Users

	Number of households	Low estimate		Medium estimate		High estimate	
		Money orders purchased annually per household	Total money orders purchased annually	Money orders purchased annually per household	Total money orders purchased annually	Money orders purchased annually per household	Total money orders purchased annually
Frequent users	2,206,946	41	89,864,586	35	77,430,956	28	60,852,784
Intermittent users	4,144,543	3	12,433,629	6	24,867,259	10	41,445,431
Total	6,351,489	16	102,298,215	16	102,298,215	16	102,298,215

Extrapolating Overall Market Share

The OIG then applied the low, medium, and high estimates for the annual number of postal money orders that frequent user households and intermittent user households purchased to the overall population of money order users, not just those who buy postal money orders. This allowed the OIG to extrapolate the total number of money orders sold in each scenario, and thus the Postal Service’s share of the total in each scenario. The FDIC did a similar survey in 2011 (though it did not ask respondents where they usually buy their money orders). The OIG applied the same low, medium, and high estimates for the number of money orders each type of household purchased to the 2011 figures, estimating the change in the number of money orders sold between 2011 and 2013. In every scenario, the total decline in the market was between 2.7 and 2.9 percent — about a quarter of the Postal Service’s 11 percent decline in money order sales between 2011 and 2013, as is illustrated in Table 3. In fact, the Postal Service’s decline in the number of money orders sold was greater than the overall market decline, meaning that sales of non-postal money orders actually increased. This adds to the evidence that there is significant room for improvement in the postal money order business.

Table 3: Overall Money Order Market and the Postal Service's Share

		2011 Money Orders Sold				2013 Money Orders Sold				Total market decline
		Frequent users	Intermittent users	Total money orders sold	USPS market share	Frequent users	Intermittent users	Total money orders sold	USPS market share	
Overall Market	Low estimate	405,245,745	36,379,576	441,625,321	26%	394,707,666	35,032,771	429,740,437	24%	-2.7%
	Medium estimate	349,176,101	72,759,151	421,935,252	27%	340,096,066	70,065,542	410,161,608	25%	-2.8%
	High estimate	274,416,575	121,265,252	395,681,827	29%	267,280,600	116,775,903	384,056,502	27%	-2.9%
Postal Service				115,283,126				102,298,215		-11.3%

Appendix C: A Closer Look at Money Order Users

The OIG analyzed the raw data from the FDIC's 2013 survey of unbanked and underbanked households to gain insights into money order users, including their demographic backgrounds and their use of technology and financial services. The data also illuminate the differences between those who used postal money orders vs non-postal money orders, and those who had purchased a money order in the previous 30 days vs those who bought a money order in the previous year, but not the previous month. The following graphics illustrate some of the more interesting findings.

Figure 11: Where People Buy Their Money Orders

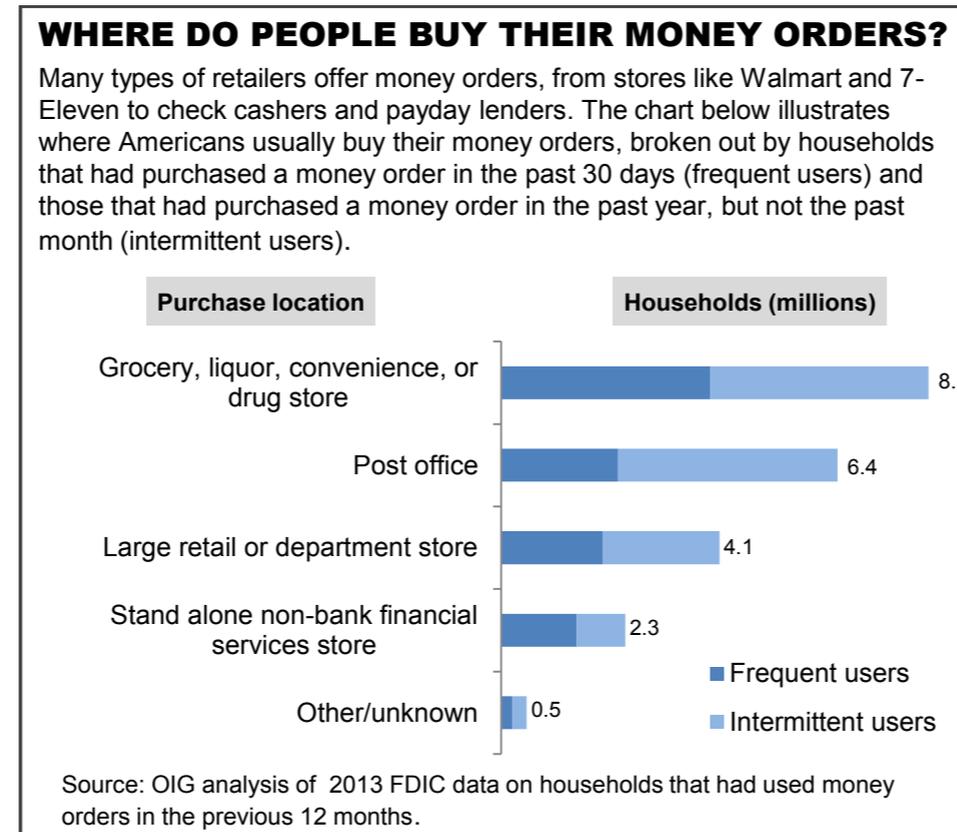
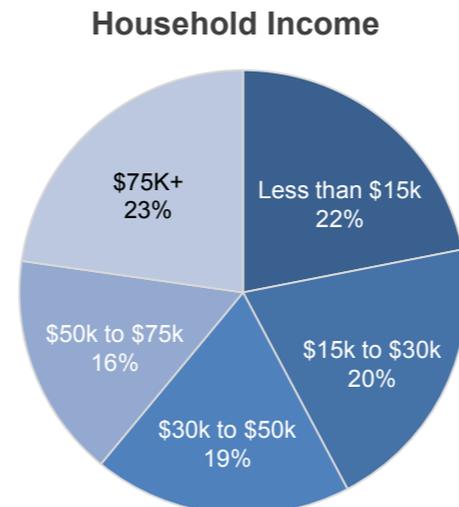
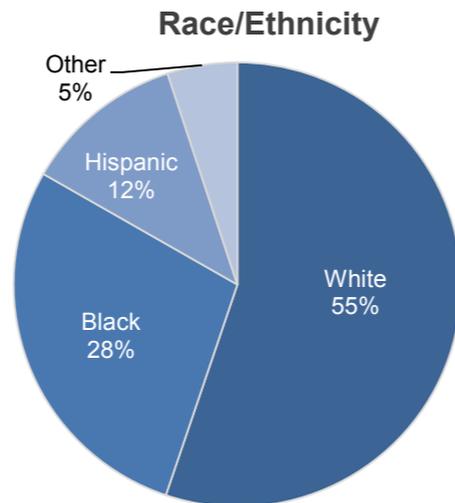
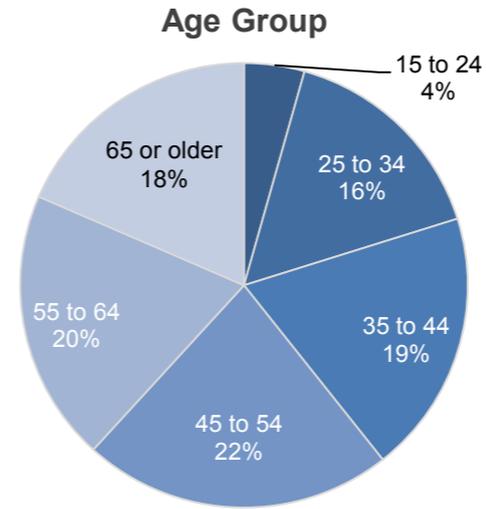


Figure 12: Postal Money Order Users are Diverse

POSTAL MONEY ORDER USERS ARE DIVERSE

Households that use postal money orders are generationally, economically, and racially/ ethnically diverse. However, postal money orders are less popular with those under the age of 25 and more popular with minorities.



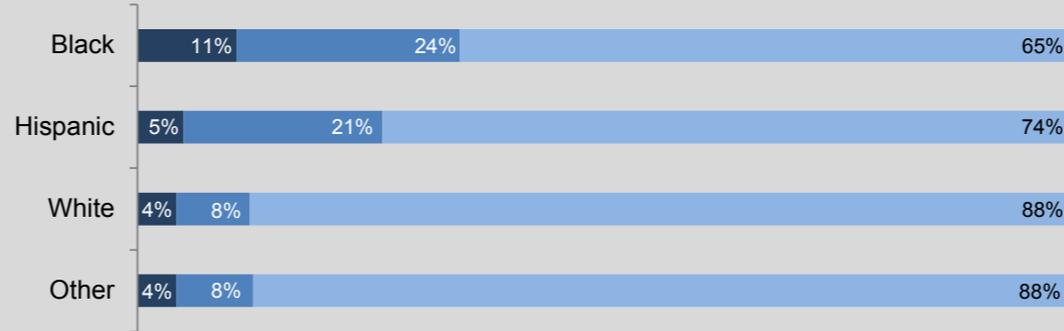
Source: OIG analysis of 2013 FDIC data on households that had used money orders in the previous 12 months and that usually bought their money orders at the post office.

Figure 13: Money Order User Demographics

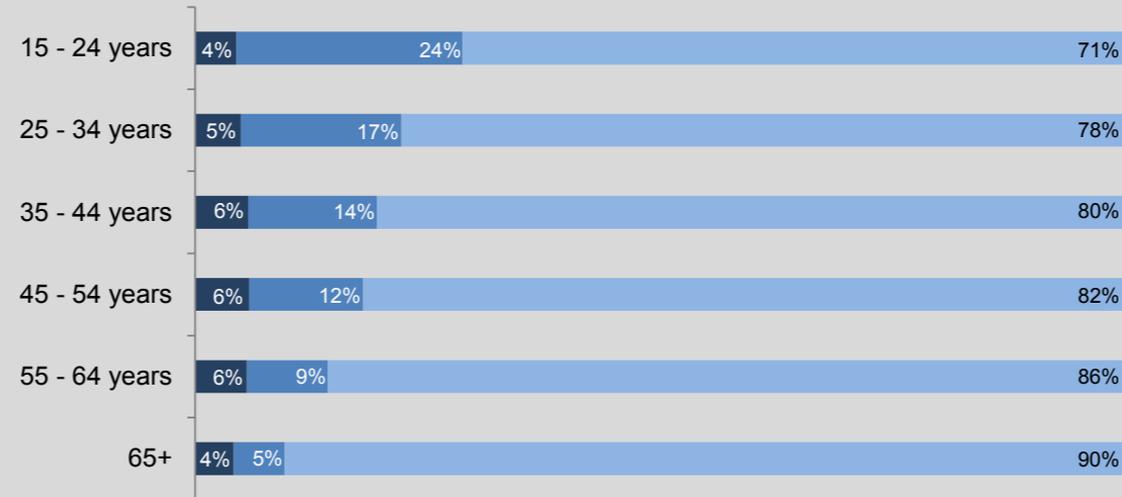
BREAKING DOWN MONEY ORDER USERS BY RACE, AGE, AND INCOME

■ Use postal money orders ■ Use non-postal money orders ■ Do not use money orders/use unknown

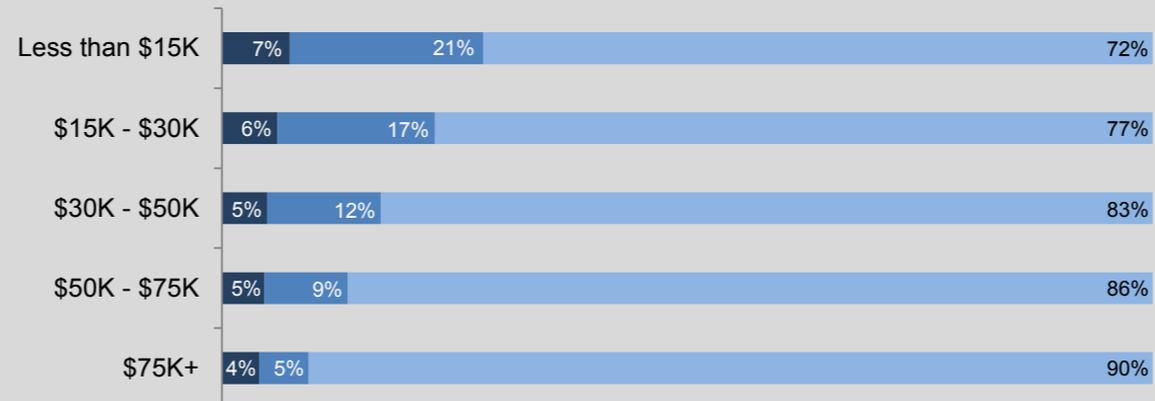
Race/Ethnicity: Black households were more than twice as likely as any other to have used postal money orders. While Hispanics were heavy users of money orders, they were much less likely than others to have bought their money orders at the post office.



Age Group: Younger households were more likely to have used money orders. However, younger money order users were less likely to have bought their money orders at the post office.



Household Income: Lower income households were more likely to use money orders. However, low income money order users were less likely to have bought their money orders at the post office.



Source: OIG analysis of 2013 FDIC data on household money orders use during the previous 12 months.

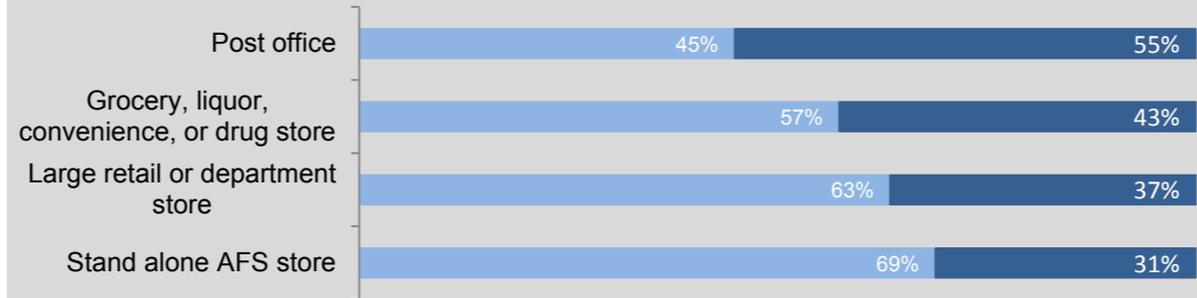
Figure 14: Money Order Users' Use of Other Alternative Financial Services

POSTAL MONEY ORDER USERS ARE THE LEAST LIKELY TO USE ADDITIONAL TYPES OF ALTERNATIVE FINANCIAL SERVICES

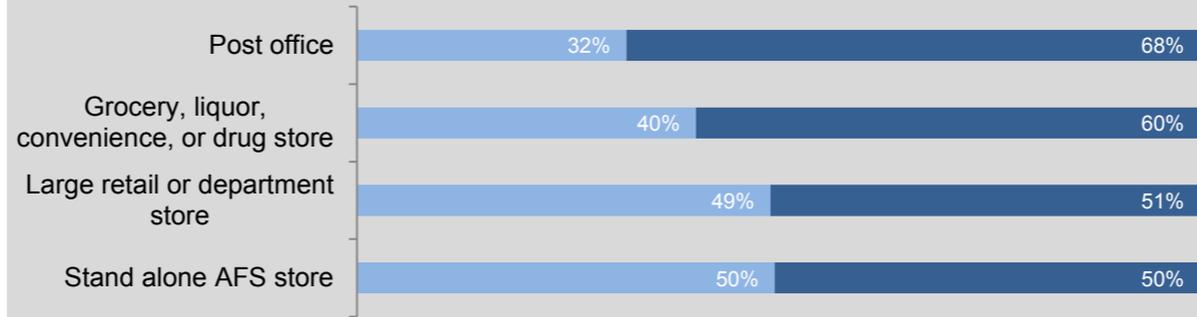
Many households that use money orders also use other alternative financial services (AFS), including check cashing, prepaid cards, international remittances, payday loans, auto title loans, pawn loans, refund anticipation loans, and rent-to-own services. As the charts below illustrate, households that bought their money orders at the post office were significantly less likely to have used additional AFS during the previous year compared to those that bought their money orders elsewhere.

■ No additional types of AFS ■ Additional types of AFS

Frequent Users: Among households that had purchased a money order in the previous 30 days, those that bought their money orders at large retail or department stores (e.g. Walmart) and standalone AFS providers (e.g. payday lenders) were the most likely to use additional types of AFS products.



Intermittent Users: Households that had purchased a money order in the previous 12 months, but not in the previous 30 days, were generally less likely to use additional types of AFS compared to those that had purchased a money order in the past month.



Note: Percentages may not sum to 100 due to rounding.
 Source: OIG analysis of 2013 FDIC data on household AFS use during the previous 12 months.

Appendix D: Financial Impact of Active Management and Digital Channels for Paper 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, such as *usps.com* and the My USPS app, that it could gain efficiencies and grow revenue. The financial projections and the assumptions behind those estimates are below.

The Baseline: What Happens if Current Trends Continue

The OIG began by examining what would likely happen if the Postal Service does not make any changes and the trends of recent years continue. The key assumptions, as explained below, are based on publicly available postal data, unless otherwise stated.

Revenue Assumptions

- Volume, which is the number of money orders sold, continues to fall by an average of 6 percent per year, as it did between 2010 and 2015.
- The average money order fee paid by customers (given the shift toward larger, more expensive money orders) increases 3 cents per year, as it did, on average, between 2010 and 2015.
- Escheatment revenue, which is the face value of money orders that go unredeemed for 2 years, continues to average 29 percent of money order fees, as it did between 2010 and 2015.
- “Float,” which is the interest income earned by investing the balance of outstanding money orders, remains at 2015 levels. This income has not fluctuated much in recent years — despite significant declines in money order volume — and is highly dependent on market interest rates. While there are indications that interest rates may rise over the next 5 years, the OIG cannot project changes in float with sufficient confidence.
- Fifty percent of the money orders are mailed, earning 49 cents in postage revenue per mailed money order. While we know that users frequently mail their money orders, we do not know exactly how many are mailed. Among the 50 money order users interviewed by the OIG, 68 percent said they mail some or all of the money orders they buy. Because many users buy multiple money orders per month — some of which are not mailed — the OIG believed 50 percent to be a reasonable, if conservative estimate.

Cost Assumptions

- Volume variable costs will continue to be \$1.02 per piece, which was the average money order cost between 2010 and 2015. During that period, volume variable costs fluctuated from 99 cents to \$1.11 and did not have a distinct trend.
- Product specific costs will continue to be \$2.7 million, which was the average between 2010 and 2015. During that period, product specific costs fluctuated from \$2.2 million to \$3.2 million and did not have a distinct trend.
- The postage on mailed money orders carries an average per-piece cost of 27 cents, which was the average attributable costs per piece for First Class Mail single piece between 2010 and 2015.

Table 4 illustrates how these assumptions would play out over the next 5 years.

Table 4: Financial Projections if Current Trends Continue

	2015	Year 1	Year 2	Year 3	Year 4	Year 5
Volume	92,776,494	87,633,613	82,775,817	78,187,303	73,853,144	69,759,241
Average money order fee	\$1.30	\$1.33	\$1.36	\$1.39	\$1.42	\$1.45
Estimate of mailed money orders	46,388,247	43,816,806	41,387,908	39,093,651	36,926,572	34,879,621
Revenues						
Fee revenue	\$120,616,369	\$116,559,247	\$112,581,291	\$108,686,188	\$104,876,979	\$101,156,108
Interest on float	\$1,669,713	\$1,669,713	\$1,669,713	\$1,669,713	\$1,669,713	\$1,669,713
Escheatment	\$38,239,599	\$ 34,189,629	\$33,022,798	\$31,880,271	\$ 30,762,938	\$29,671,518
Postage revenue	\$22,730,241	\$21,470,235	\$20,280,075	\$19,155,889	\$18,094,020	\$17,091,014
TOTAL REVENUES	\$183,255,922	\$173,888,824	\$167,553,876	\$161,392,061	\$155,403,650	\$149,588,353
Expenses						
Volume Variable Cost	\$102,503,680	\$89,586,736	\$84,620,673	\$79,929,893	\$75,499,138	\$71,313,992
Product Specific Cost	\$2,604,240	\$2,710,551	\$2,710,551	\$2,710,551	\$2,710,551	\$2,710,551
First Class Mail Single Piece Cost	\$12,739,329	\$12,033,150	\$11,366,116	\$10,736,058	\$10,140,925	\$9,578,783
TOTAL EXPENSES	\$117,847,249	\$104,330,437	\$98,697,339	\$93,376,501	\$88,350,614	\$83,603,326
Contribution	\$65,408,673	\$69,558,387	\$68,856,537	\$68,015,560	\$67,053,036	\$65,985,026
Cost Coverage	156%	167%	170%	173%	176%	179%

*Totals may not sum to due to rounding. This is an illustrative example. Actual results would depend on execution, market conditions, and other factors.

With Active Management, Marketing, and Digital Channels

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, it could lead to significant financial benefits. These are the key assumptions the OIG used, broken out by the channel in which the money orders are sold.

Revenue Assumptions: Post Office Channel

- Volume, which is the number of money orders sold, falls by 25 percent in Year 1, as customers migrate to the online/mobile channel. It declines another 5 percent in Year 2, remains flat in Year 3, and increases by 2 percent in Years 4 and 5.
- The average money order fee paid by customers (given the shift toward larger, more expensive money orders) increases 3 cents per year, as it did, on average, between 2010 and 2015.
- One third of the money orders are mailed, earning 49 cents in postage revenue per mailed money order.⁸⁷ This is down from 50 percent in the status quo scenario to account for the customers who migrated to the online/mobile channel. This assumes that those who make the switch to the online/mobile channel were among those who had already been mailing their money orders.
- Escheatment revenue, which is the face value of money orders that go unredeemed for 2 years, continues to average 29 percent of money order fees, as it did between 2010 and 2015.
- “Float,” which is the interest income earned by investing the balance of outstanding money orders, remains at 2015 levels. This income has not fluctuated much in recent years — despite significant declines in money order volume — and is highly dependent on market interest rates. While there are indications that interest rates may rise over the next 5 years, the OIG cannot project changes in float with sufficient confidence.

Revenue Assumptions: Online/Mobile Channel

- Volume, which is the number of money orders sold, equals 25 percent of the 2015 volume in Year 1. It then grows by 20 percent in Year 2, 15 percent in Years 3 and 4, and 10 percent in Year 5. This growth includes both migration from the post office channel and new customers who switch to postal money orders for their payment needs. The OIG believes this level of growth is reasonable because money orders sold through this channel would give a level of convenience not available from any other provider. The digital channel could be of particular interest to young people, who are more likely to use money orders, but currently are less likely buy them from the Postal Service. The average money order fee paid by customers (given the shift toward larger, more expensive money orders) increases 3 cents per year, as it did, on average, between 2010 and 2015.
- All of the money orders purchased are mailed, generating 49 cents in postage revenue each.
- Escheatment revenue, which is the face value of money orders that go unredeemed for 2 years, continues to average 29 percent of money order fees, as it did between 2010 and 2015.

⁸⁷ At the time of this writing, 49 cents was the price of a Forever Stamp.

- “Float,” which is the interest income earned by investing the balance of outstanding money orders, remains at 2015 levels. This income has not fluctuated much in recent years and is highly dependent on market interest rates. While there are indications that interest rates may rise over the next 5 years, the OIG cannot project changes in float with sufficient confidence.

Cost Assumptions

- Volume variable costs for money orders sold at post offices will remain at \$1.02 per piece, which was the average between 2010 and 2015. During that period, volume variable costs fluctuated from 99 cents to \$1.11 and did not have a distinct trend.
- Volume variable costs for money orders sold through the online/mobile channel will be 68 cents, which is one-third less than the costs of money orders sold at post offices. Given that a clerk’s time at the window comprises more than two thirds of attributable costs on money orders sold at post offices, these lower costs reflect the efficiencies potentially gained by having money orders printed at a central facility.
- Product specific costs will be \$2.7 million, which was the average between 2010 and 2015. During that period, product specific costs fluctuated from \$2.2 million to \$3.2 million and did not have a distinct trend.
- During Year 1, \$750,000 will be spent on equipment for money order fulfillment and \$250,000 will be spent on app development.⁸⁸ This totals \$1 million.
- One million dollars per year will be spent on marketing and merchandising.
- The postage on mailed money orders carries an average per-piece cost of 27 cents, which was the average attributable costs per piece for First Class Mail single piece between 2010 and 2015.

Table 5 illustrates how these assumptions would play out over the next 5 years.

⁸⁸ An example of the type of machine that could handle money order fulfillment can be found here: http://www.pb.com/bv70/en_US/extranet/contentfiles/products/downloads/APS_Edge_brochure.pdf.

Table 5: Financial Projections with Active Management and Online/Mobile Channel

	2015	Year 1	Year 2	Year 3	Year 4	Year 5
Volume (post office)	92,776,494	69,582,371	66,103,252	66,103,252	67,425,317	68,773,823
Volume (online/mobile)		23,194,124	27,832,948	32,007,890	36,809,074	40,489,981
Total volume	92,776,494	92,776,494	93,936,200	98,111,142	104,234,391	109,263,805
Average money order fee	\$1.30	\$1.33	\$1.36	\$1.39	\$1.42	\$1.45
Estimate of mailed money orders	46,388,247	46,388,247	49,867,366	54,042,308	59,284,180	63,414,589
Revenues						
<i>Fee revenue (post office)</i>	\$120,616,369	\$92,549,748	\$89,905,358	\$91,888,456	\$95,748,984	\$99,727,179
<i>Fee revenue (online/mobile)</i>		\$30,849,916	\$37,854,888	\$44,493,357	\$52,271,633	\$58,713,496
<i>Interest on float</i>	\$1,669,713	\$1,669,713	\$1,669,713	\$1,669,713	\$1,669,713	\$1,669,713
<i>Escheated money orders</i>	\$38,239,599	\$36,196,087	\$37,475,150	\$40,004,063	\$43,418,004	\$46,474,458
<i>Postage revenue</i>	\$22,730,241	\$22,730,241	\$24,435,009	\$26,480,731	\$29,049,248	\$31,073,149
TOTAL REVENUES	\$183,255,922	\$183,995,704	\$191,340,118	\$204,536,320	\$222,157,582	\$237,657,993
Expenses						
<i>Volume variable cost (post office)</i>	\$102,503,680	\$71,133,179	\$67,576,520	\$67,576,520	\$68,928,051	\$70,306,612
<i>Volume variable cost (online/mobile)</i>		\$15,807,373	\$18,968,848	\$21,814,175	\$25,086,301	\$27,594,931
<i>Product specific cost</i>	\$2,604,240	\$2,710,551	\$2,710,551	\$2,710,551	\$2,710,551	\$2,710,551
<i>Fulfillment center equipment/app development</i>		\$1,000,000				
<i>Marketing/merchandising</i>		\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
<i>First Class Mail single piece cost</i>	\$12,739,329	\$12,739,329	\$13,694,779	\$14,841,318	\$16,280,863	\$17,415,172
TOTAL EXPENSES	\$117,847,249	\$104,390,432	\$103,950,698	\$107,942,565	\$114,005,765	\$119,027,266
Contribution	\$65,408,673	\$79,605,272	\$87,389,420	\$96,593,755	\$108,151,817	\$118,630,727
Cost coverage	156%	176%	184%	189%	195%	200%

*Totals may not sum to due to rounding. This is an illustrative example. Actual results would depend on execution, market conditions, and other factors.

Comparing the Two Scenarios

To assess the potential financial impact of active strategic management and the online/mobile channel for money orders, the OIG compared the two scenarios, as shown in the tables below.

Table 6: Projected Volume Impact of Improvements

Scenario	Year 1	Year 2	Year 3	Year 4	Year 5	Cumulative
Status quo	87,633,613	82,775,817	78,187,303	73,853,144	69,759,241	392,209,117
Active management and online/mobile channel	92,776,494	93,936,200	98,111,142	104,234,391	109,263,805	498,322,032
Volume difference	5,142,881	11,160,384	19,923,840	30,381,247	39,504,563	106,112,915

Table 7: Projected Revenue Impact of Improvements

Scenario	Year 1	Year 2	Year 3	Year 4	Year 5	Cumulative
Status quo	\$173,888,824	\$167,553,876	\$161,392,061	\$155,403,650	\$149,588,353	\$807,826,764
Active management and online/mobile channel	\$183,995,704	\$191,340,118	\$204,536,320	\$222,157,582	\$237,657,993	\$1,039,687,718
Revenue difference	\$10,106,881	\$23,786,241	\$43,144,258	\$66,753,932	\$88,069,641	\$231,860,953

Table 8: Projected Contribution Impact of Improvements

Scenario	Year 1	Year 2	Year 3	Year 4	Year 5	Cumulative
Status quo	\$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
Contribution difference	\$10,046,885	\$18,532,883	\$28,578,195	\$41,098,781	\$52,645,701	\$150,902,444

Appendix E: Management's Comments



March 30, 2016

RENEE SHEEHY, DIRECTOR RISK ANALYSIS RESEARCH CENTER

SUBJECT: MODERNIZING THE POSTAL MONEY ORDER
PROJECT NUMBER 2015RARC008

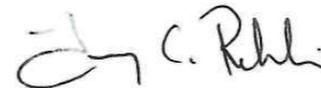
Thank you for your white paper entitled *Modernizing the Postal Money Order*. A consolidated response is below from Finance and Marketing.

- The executive summary suggests printing at central facilities as a means of getting postal money orders to recipients faster. Plants aren't staffed to be printing and mailing service facilities, however; this means that we would have to centralize, which could have the unintended effect of delaying in-person money order delivery.
- This move would also be unlikely to save costs. It is more likely that it would simply move the cost from the Retail counter to that centralized facility, given that someone would have to print the money order, put it in an envelope and mail it.
- Employees at these facilities are also not used to handling these types of documents, meaning that the Postal Service would incur extra costs not only from extra checks and balances that would need to be put in place, but also from internal and external audit perspective.
- Customer service complaints may increase as we are now taking responsibility for more of the process. If these are sent with a signature requirement, it is more operational cost associated with that service.
- The document continually uses a sample of only 50 individuals at two Post Offices in the Washington, DC area in order to calculate revenue and volume projections. This small sample may not actually be representative of the number of money orders mailed, postage revenue or First-Class Mail single-piece costs.
- The numbers in table 4 purport to represent the 2015 column as actual numbers, when in fact they are not actuals for number of money orders mailed, and therefore the postage revenue and FCM single piece cost.

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- The assumption that postal money order fees would increase \$.03 per year has also not been borne out. In 2016, for example, there was no CPI and no allowable price increase for this market dominant product.
- We also believe that a 100-percent electronic money order would lead to the highest cost reduction and net contribution, but while the white paper briefly mentions electronic money orders, it includes no data to support this.
- Request was made for the supporting data for the 100 percent electronic money order and to date the information has not been received.
- It is stated in the document that “during year 1, \$750,000 will be spent on equipment for money order fulfilment and \$250,000 will be spent on app development. This totals \$1 million”. Need to understand how these costs were attained. Without User Stories and IT ROM these costs are more than likely understated and could impact the potential revenue.
- One item to note is a pending proposal for 2017 to convert Collect on Delivery remittance reimbursements to Electronic Funds Transfer (EFT). This would eliminate the money order option and fees associated with the service for the remittance, but increase the security of the transaction and likely reduce any claims resulting from missing or lost customer remittances.
- COD service has been declining in recent years. Overall COD revenue fell by 13.3 percent in fiscal year 2015, with volume declining by 12.1. Based on customer feedback it is critical that we move the remittance reimbursement to EFT.

If you have any questions, please let us know.



Gary C. Reblin
Vice President, New Products and Innovation



Maura McNerney
Vice President, Controller



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