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OFFICE OF
INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

The Road Ahead for Postal Financial Services

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OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

Executive Summary

In January 2014, the U.S. Postal Service Office of Inspector General (OIG) issued a white paper exploring how the U.S. Postal Service could provide affordable financial products. These products could benefit the 68 million underserved Americans who either do not have a bank account or rely on expensive services like payday lending and check cashing. The products also could help the Postal Service generate new revenue to continue providing universal service. Because it has a presence in every neighborhood, including many places where there are no longer any bank branches, the Postal Service is well suited to provide such services. In addition, its well-trained workforce is already experienced at handling complex transactions and watching out for related fraud and other risks.

The Postal Service already provides essential financial products to millions of Americans. For example, the Postal Service is the largest single provider of paper money orders in the United States, which are by far the most widely used alternative financial service. The Postal Service sold $21 billion worth of money orders in fiscal year 2014, bringing in $165 million in revenue. It also offers prepaid cards, international money transfers, and limited check cashing. Because many current users of postal financial services are repeat customers, they likely form a ready base of consumers who would benefit from additional postal financial services. An expanded product suite could attract many new customers too, as survey results show that most current users of alternative financial services would go to their local post office to get more affordable financial products. Small town America

Entire industries are scaling back their brick-and-mortar facilities and setting up digital platforms for services like e-commerce, e-health, e-government, and e-banking. While many services can be provided digitally, there are still some that require in-person transactions or communication. Those residual services can no longer justify the costs of standalone physical infrastructures.

One unintended consequence of this digitization trend is that some citizens are isolated and cut off from important services they need. Industries that have gone digital could also benefit from finding new ways to connect with citizens who have been left behind.

Physical locations are still needed for financial services like exchanging digital and traditional currency instruments, cashing a check and using the funds to buy a debit card or a money order, and converting cash to a digital format for participation in e-commerce.

The Postal Service arguably has the only public or private infrastructure that can reliably reach people in every American neighborhood. By bundling residual in-person services from several industries that are going digital into a single network of post offices, the Postal Service could help industries and citizens, and find much-needed new revenue. The majority of revenue for high-performing world posts now comes from non-mail services, according to a recent Accenture study.

in particular could be a major beneficiary of expanded services, given that post offices in rural ZIP Codes sell 27 percent more money orders per capita than urban locations. Affordable products from the Postal Service could also help the millions of underserved seniors and military service members who currently rely on expensive alternative financial services.

Based on ongoing interest and inquiries, we further assessed ways for the Postal Service to expand its financial services offerings. This follow-up paper examines five potential approaches the Postal Service could take for doing so. The approaches are not mutually exclusive. To assist us in assessing these possibilities, we hired Mercator Advisory Group, an experienced firm that advises financial industry clients across the globe.

The first approach we identified envisions the Postal Service expanding the products it already offers under its existing legal authority. This approach would let the Postal Service build on its current strengths and provide these affordable products in every American neighborhood. One key product could be electronic money transfers that provide a convenient and affordable way for people to send money between post offices. Other possibilities include bill payment services, expanded check cashing, and international money transfers to additional countries where the market is huge and quickly growing. Right now, the Postal Service offers international money transfers to only four of the top 10 destination countries for money sent overseas from the United States. While focusing on expanding its current offerings may be a more immediate and feasible approach for the Postal Service, it might bring fewer of the underserved into the financial mainstream and result in a smaller revenue opportunity than other approaches. Although regulatory approval would have to be received before going forward, this approach could generate $1.1 billion in annual revenue after 5 years, while covering costs and contributing profits. This estimate is based on Mercator Advisory Group's standard industry assumption that many financial products take up to 5 years to reach full rollout.

This estimate reflects only a fraction of the potential revenue the Postal Service could garner from financial services if it obtained authority to offer a broader range of products. As we stated in our previous paper, posts in industrialized countries generated on average 14.5 percent of their revenue from financial services in 2012. For the U.S. Postal Service, a similar percentage would translate to nearly $10 billion in revenue from financial services. With the right focus and execution, there should be no reason why the Postal Service could not achieve normal financial returns or become the world's leading post in providing financial services.

The remaining approaches may involve a broader range of more complex products, some of which might be outside of the Postal Service's current legal authority. For our analysis on those approaches, we assumed the legal restrictions on new products were loosened. Approaches 2 and 3 examine ways the Postal Service could partner with one or more banks, credit unions, or other organizations to provide products like reloadable prepaid cards and small loans. Establishing partnerships could help the Postal Service handle operational and regulatory complexities, bring important expertise, and possibly provide necessary capital. Having one exclusive partner could streamline operations, but could also mean that problems with that sole partner could jeopardize the whole program. Having multiple partners could allow the Postal Service to find the best possible provider for each product, but would require more time and resources to manage.

Approach 4 examines how the Postal Service could create a marketplace where multiple providers offer each product for sale to the public so long as the products adhere to certain standards. This marketplace strategy would create a platform to spur competition among providers for citizens everywhere. This could drive down costs, give citizens a wide menu of options, and enhance value for all — the Postal Service, providers, and consumers. However, such a marketplace could be challenging to manage if it attracts a large number of providers. Approach 5 involves the Postal Service establishing its own full-fledged post bank. This could have the biggest benefits for the underserved, but the process for establishing a post bank would likely be lengthy and difficult. Moreover, this approach would introduce heavy regulatory requirements for the Postal Service. This reflects the inherent tension between the goal of financial inclusion and the ease of implementation. While approaches 2 through 5 could each generate billions in

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revenue, reliable financial estimates would require additional information that is unavailable.

Regardless of what approaches it takes, the Postal Service could make use of its current financial services data involving money orders, international money transfers, and other products to help design future offerings. It may be most feasible for the Postal Service to start small with what it can currently do and then expand strategically once it has proven success. Offering expanded financial services would help the Postal Service improve the lives of millions of Americans as it fulfills its universal service obligation.

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Introduction

The financial services industry is experiencing a period of tremendous change. Banks are closing branches in communities across the country for many reasons, including the rise of mobile banking and the emergence of new players in the payments space. This has created a vacuum that leaves many consumers without access to adequate financial services. More than a quarter of households in this country either do not have a bank account or have an account but also rely on alternative financial providers such as check cashers and payday lenders, which sometimes seek to take advantage of Americans living on the financial fringes.[1] The financially "underserved" families living in those households tend to be working class and have low income.[2] In addition, they spend significantly more time and money just to take care of simple, everyday transactions like paying bills or cashing their paychecks than most families do. When it comes to financial services, it is actually more expensive to be poor.

This issue hits certain communities particularly hard. For example, some minority groups are disproportionately represented among the financially underserved. In addition, there are 8.5 million underserved senior citizens in the United States.[3] Moreover, military service members and their families are still preyed upon by providers selling expensive alternative financial products like high-cost loans, despite Congressional actions designed specifically to protect the military community.[4]

The U.S. Postal Service may be able to help. In a January 2014 white paper titled *Providing Non-Bank Financial Services for the Underserved,* the independent U.S. Postal Service Office of Inspector General (OIG) explored the concept of the Postal Service expanding its financial services offerings to meet the needs of Americans who live on the financial fringes, saving them time and money.[5] The paper proposed that postal financial services would not only benefit the underserved, but also could benefit the mainstream financial services industry by helping it to reconnect with customers. Postal financial services could also benefit the Postal Service by relieving some of the strain on its resources caused by Internet diversion and changes in the economy. Rather than just raise prices on mailing services, the Postal Service could raise and diversify its revenue by redeploying its network to help assure universal service. The paper highlighted crucial strengths of the Postal Service that would help it to provide financial services, such as its vast physical network and the tremendous level of trust the public places in the Postal Service.[6] In addition, the paper discussed how international postal organizations have been tremendously successful at providing financial services, with some earning major portions of their annual revenue from financial services.[7] There are many reasons to believe that the U.S. Postal Service could be similarly successful.

This follow-up paper examines five potential approaches the Postal Service could take to expand its financial services offerings, looking at the pros and cons of each. The analysis is based on assessments of the U.S. financial services market, interviews

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1 Federal Deposit Insurance Corporation (FDIC), *2013 FDIC National Survey of Unbanked and Underbanked Households*, October 2014, https://www.fdic.gov/householdsurvey/2013report.pdf, p. 4.
2 Ibid., p. 5. "Underserved" includes both the unbanked, who do not have a bank account, and the underbanked, who have a bank account but also have used one of the following alternative financial services within the past year: money orders, check cashing, remittances, payday loans, refund anticipation loans, rent-to-own services, pawn loans, and auto title loans. While it is most correct to refer to "underserved households" or "underserved individuals," this paper uses the phrase "the underserved" for the sake of brevity and readability.
3 Ibid., pp. 16-17.
4 Consumer Financial Protection Bureau (CFPB), *The Extension of High-Cost Credit to Servicemembers and their Families*, December 2014, http://files.consumerfinance.gov/f/201412_cfpb_the-extension-of-high-cost-credit-to-servicemembers-and-their-families.pdf, p. 2-4.
5 U.S. Postal Service Office of Inspector General (OIG), *Providing Non-Bank Financial Services for the Underserved*, Report Number RARC-WP-14-007, January 27, 2014, https://www.uspsoig.gov/sites/default/files/document-library-files/2014/rarc-wp-14-007.pdf.
6 For more information about the OIG's January 2014 white paper, please see Appendix A.
7 According to the Universal Postal Union (UPU), in 2012, posts in industrialized countries earned an average of 14.5 percent of their revenue from financial services. See UPU, *Development of Postal Services in 2012*, October 2013. Other estimates of posts' income from financial services vary. For example, some highly successful posts earn about 70 percent of their profits just from financial services. For more information, please see John Anderson, *Why Canada Needs Postal Banking*, Canadian Centre for Policy Alternatives, October 2013, https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2013/10/Why_Canada_Needs_PostalBanking.pdf, p. 9.

with key postal and financial services industry stakeholders, and other sources. For portions of this analysis, we hired Mercator Advisory Group, an experienced firm that provides advisory and consulting services to clients in the financial services industry across the globe. Finally, it is important to note that this report is by design not a business plan. While we aim to inform the Postal Service and other stakeholders on this topic, it is the Postal Service itself — along with its governors, regulator, and other key stakeholders — that must decide whether and how to expand its financial services offerings.

The Postal Service's Strategic Advantages in Providing Financial Services

The Postal Service is already well positioned to provide financial services. The Postal Service has a public mission to serve citizens and support the growth of commerce.[8] And while it is required to cover its costs, profit is not its key motive. There are clear links between modern financial services like digital payments and the traditional roles played by the Postal Service in areas such as e-commerce fulfillment. In addition to the ubiquity of its physical network and the high level of public trust, the Postal Service has other strategic advantages, which we outline below.

Money orders are by far the most widely used alternative financial service, and the Postal Service is the largest provider of money orders, issuing $21 billion worth (face value) in FY 2014.

The Postal Service Is Already Important in the Lives of Millions of Underserved Americans

For millions of underserved families, the Postal Service is already a part of their financial lives. Among the 31 million American households that used alternative financial services in the past year, 69 percent used money orders, making them by far the most widely used alternative financial product. The Postal Service is the single largest issuer of domestic paper money orders, which essentially function like prepaid checks.[9] The underserved used postal money orders to pay $21 billion worth of their bills in fiscal year 2014.[10] To get the funds to purchase those money orders, many families likely first went to expensive check cashers to convert their paychecks into currency. What if those consumers could instead cash their paychecks at a post office for a lower fee? What if they also could pay bills, buy low-fee prepaid cards, and maybe even get affordable small-dollar loans, all in one convenient location? This could help consumers save money and time, and it would help the Postal Service fulfill its mission to facilitate commerce and serve citizens.

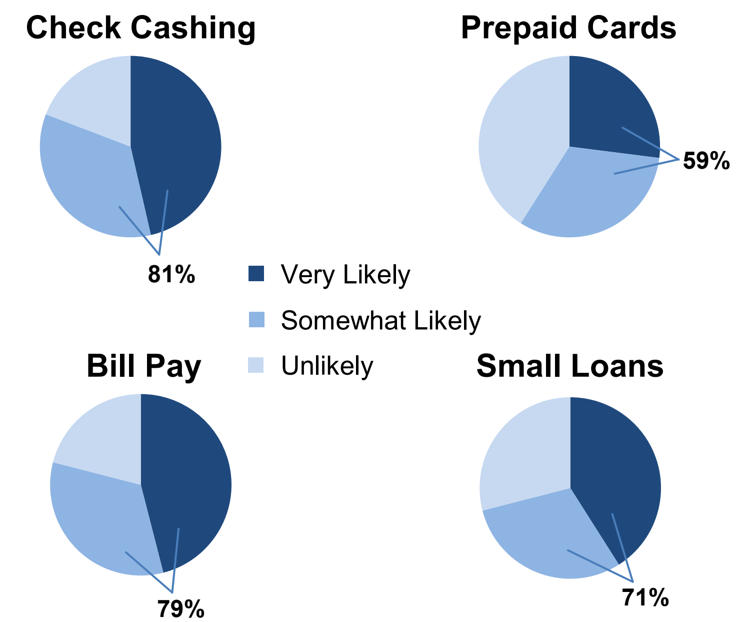
Most Current Users of Alternative Financial Services Would Use the Postal Service

When the Pew Charitable Trusts asked current users of alternative financial services whether they would be likely to use their local post office to access more affordable products, a large majority (between 81 percent and 59 percent, depending on the specific product)

Figure 1: Most Would Use Postal Financial Services

UNDERSERVED SAY THEY WOULD USE POSTAL FINANCIAL SERVICES

Among those who use alternative financial services, a large majority say they would be likely to use lower cost postal financial products if they were available at their local post office.



Source: Pew Charitable Trusts, *The Post Office and Financial Services*, 2014.

8 Postal Reorganization Act of 1970, 39 U.S.C. § 101.
9 OIG analysis of FDIC's *2013 National Survey of Unbanked and Underbanked Households* (and its *Appendices*), October 2014, https://www.fdic.gov/householdsurvey/2013report.pdf and https://www.fdic.gov/householdsurvey/2013appendix.pdf.
10 OIG analysis of U.S. Postal Service money order database.

responded positively.[11] The research also showed that for many of the underserved, convenience of the location where they get their financial services is the most important factor.[12] With a post office in every neighborhood in the country, this could be another critical advantage for the Postal Service.

The Postal Service's Customer Service Scores Higher than that of other Alternative Financial Services Providers

While the Postal Service's customer service could always be improved, and critics of the OIG's 2014 paper have rightfully pointed it out as a potential challenge, it is perceived as being better than the service provided by other existing alternative financial service providers. Pew research shows that 77 percent of those who use alternative financial services have a positive view of the customer service at their local post office. That is significantly higher than their views of customer service at their check casher (58 percent positive), the place they go to pay bills for a fee (57 percent positive), or their payday lender (41 percent positive). Those numbers may reflect the difficulty of reining in the abusive practices of some payday lenders.[13] Pew also found that 76 percent of the general public has a positive opinion about customer service at their local post office.[14] It is important to note that customer service at post offices varies greatly across the country. It can be better in small towns, but have challenges in some bigger cities. The Postal Service could benefit from national standards, focus, and resources to ensure that it provides the same excellent service at every post office coast-to-coast.

Postal Employees Are Well Trained in Areas Directly Related to Financial Services

Some critics of the 2014 white paper raised concerns about whether postal employees are adequately trained to provide financial services. Training is indeed an essential component to success in this space. Fortunately, postal clerks already complete training on the Bank Secrecy Act, anti-money laundering compliance, and other areas, and are recertified annually on many related skills and knowledge.[15] This is significantly more training than clerks in convenience stores and supermarkets, who sell most of the same types of alternative financial products in question. Selling these products requires minimal financial expertise and postal employees already are well trained in these areas.

Even bank tellers are not expected to be financial experts, as their primary duties are cash handling, customer service, and sales.[16] These duties are quite similar to the duties of postal clerks. On a daily basis, postal clerks handle cash and debit card transactions, process returns, cash checks and money orders, prepare bank deposits, fill out complex customs paperwork, help detect potential bank fraud and money laundering, and complete other functions that prepare them for handling financial transactions.[17] That being said, postal clerks would not be making complex financial decisions, such as loan approval. They would likely be taking in customer information and relying on partners and software to determine a product's suitability for a particular customer — similar to the way they handle passport applications, but do not determine who should get a passport.

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11 Pew Charitable Trusts, *The Post Office and Financial Services*, July 16, 2014, http://www.pewtrusts.org/~/media/Assets/2014/07/FIN_Presentation-of-Pew-Research--The-Post-Office-and-Financial-Services.pdf, p. 13.
12 Ibid., pp. 15, 17.
13 In March 2015, the CFPB announced that it was considering proposing new regulations that would affect many payday lenders. For more information, please see CFPB, "CFPB Considers Proposal to End Payday Debt Traps," news release, March 26, 2015, http://www.consumerfinance.gov/newsroom/cfpb-considers-proposal-to-end-payday-debt-traps/.
14 Pew Charitable Trusts, *The Post Office and Financial Services*, p. 6.
15 U.S. Postal Service, *Postal Bulletin 22311, New Procedures for PS Form 8105-B, Suspicious Transaction Reports at POS Offices*, http://about.usps.com/postal-bulletin/2011/pb22311/html/updt_008.htm, *PS Form 8105-A*, *Funds Transaction Report (FTR)*, http://about.usps.com/forms/ps8105a.pdf; National Association of Letter Carriers, "Banking on the Postal Network," *The Postal Record*, September/October 2014, http://www.nalc.org/news/the-postal-record/2014/september-october-2014/document/09-2014_banking.pdf, p. 18; and American Postal Workers Union, *The Case for Postal Banking: The Postal Service Already Provides Financial Services to the Unbanked*, December 16, 2014, http://www.apwu.org/news/web-news-article/case-postal-banking.
16 Study.com, *Teller Training Programs, Courses and Requirements,* http://study.com/teller_training.html.
17 National Association of Letter Carriers, "Banking on the Postal Network" and American Postal Workers Union, *The Case for Postal Banking: The Postal Service Already Provides Financial Services to the Unbanked*.

The average wage of postal clerks might be higher than that of the frontline staff at other providers in the alternative financial services market, though postal clerks would also be selling a wider variety of products than many providers. Moreover, additional work hours, and thus, additional labor expenses, would be likely only if financial services took off in a big way. If it did, the Postal Service would bring in significant new revenue such that the additional costs would be more than covered. Well-trained postal clerks could also help citizens who are being left behind in the transition to the digital age. Many services that go digital — like e-health, e-commerce, and e-government — still have physical requirements. The Postal Service could help ensure that as many citizens as possible can participate in these services.

Americans Are Broadly in Favor of Postal Financial Services

After the January 2014 white paper's publication, a vigorous debate ensued. Many stakeholders from the financial services, postal, and other industries weighed in, resulting in many news articles, editorials, opinion pieces, and other coverage. In addition, many organizations contacted the OIG to learn more about its research and often to express support for the notion of postal financial services. Multiple think tanks, consumer advocacy groups, financial industry leaders, and others have hosted, spoken at, or sponsored events focused on the issues identified by the OIG. For example, the Pew Charitable Trusts held a conference on postal financial services in July 2014 and presented its own original research on the topic.[18]

While critics have raised some legitimate questions, Pew's research shows that Americans across the political spectrum support the idea of expanded postal financial services, agreeing that the benefits to low- and middle-income Americans and the Postal Service outweigh concerns that it would divert resources away from mail delivery or give the Postal Service an unfair advantage over private businesses (see Figure 2).[19] This support should give the Postal Service confidence that the public would welcome an expanded suite of financial offerings.

The Postal Service also may have cultural appeal to a wider range of Americans compared to big banks or storefront check cashers. Many people are uncomfortable going to banks, and others would prefer not to go to a payday lender or other such provider.[20] On the contrary, most people are comfortable going to their neighborhood post office.

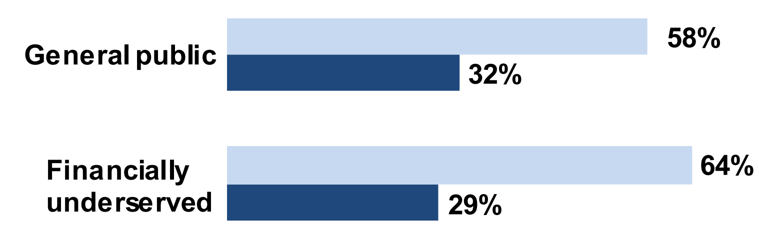
Figure 2: Public Supports Postal Financial Services

AMERICANS AGREE: POSTAL FINANCIAL SERVICES IS A GOOD IDEA

When asked whether they favor arguments for or against postal financial services, Americans overwhelmingly support the concept, according to a Pew Charitable Trusts survey.

Statement A: *"Providing financial services at Postal Service branches will expand access to safe financial products for low and middle-income Americans while providing a new source of revenue for the Postal Service."*

Statement B: *"Providing financial services at Postal Service branches will divert resources from mail delivery and give the government-run Postal Service an unfair advantage over privately-run companies that already offer financial services."*



Source: Pew Charitable Trusts, *The Post Office and Financial Services*, 2014.

18 Pew Charitable Trusts, *Financial Services and the Post Office: A one-day conference exploring diverse perspectives on whether the USPS should offer financial services*, July 16, 2014, http://www.pewtrusts.org/en/about/events/2014/financial-services-and-the-post-office.
19 Pew Charitable Trusts, *The Post Office and Financial Services*, p. 11.
20 More than 34 percent of unbanked households cited their distrust or dislike of banks as a reason why they are unbanked. For more information, please see FDIC, *2013 National Survey of Unbanked and Underbanked Households*, pp. 6-7.

Potential Approaches for Postal Financial Services

In an effort to inform the Postal Service and other stakeholders, the OIG has examined five potential approaches the Postal Service could take for expanding its financial services offerings. These are not all encompassing, nor are they mutually exclusive. Financial consultancy Mercator Advisory Group helped define the approaches in collaboration with the OIG, and completed significant portions of the analysis of all approaches and the specific products they might include.

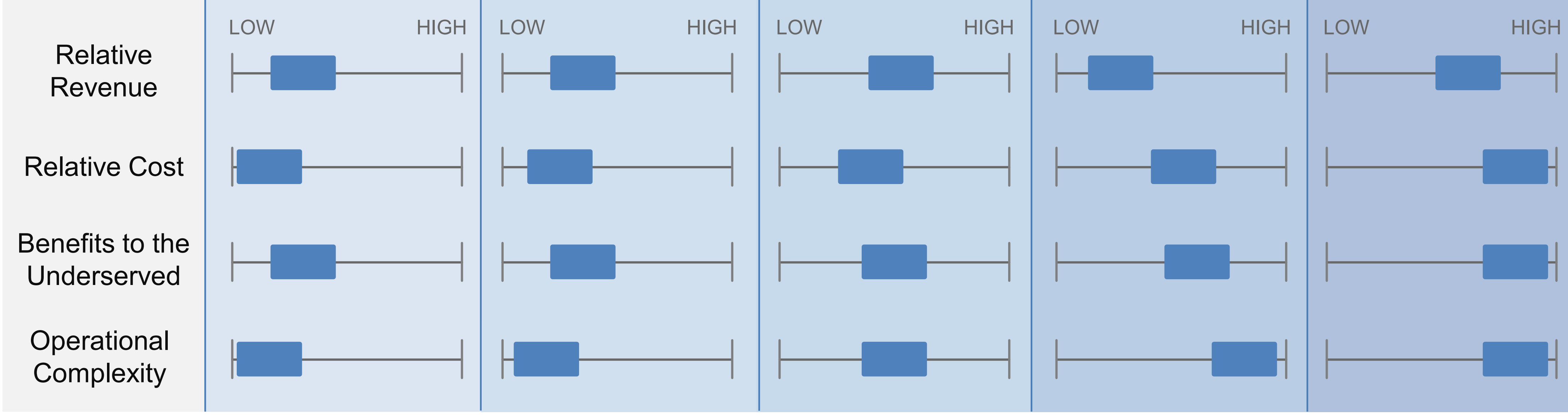
For the first approach, the OIG focused on the products the Postal Service may be able to offer under current law. If the Postal Service seeks to expand its financial offerings, this could be a logical first step. For the remaining four approaches, the OIG assumed that the Postal Service gains new authority to offer additional products, such as reloadable prepaid cards with added features, deposit accounts, and small loans. While the OIG believes the Postal Service could expand its financial services, the Postal Service itself — along with its governors, regulator, and other key stakeholders — must determine the best way to do so. This analysis is a tool meant to help inform any such efforts. Figure 3 below shows a high-level overview of the approaches and their pros and cons.

Figure 3: Pros and Cons of Potential Approaches

FIVE POTENTIAL APPROACHES FOR EXPANDING POSTAL FINANCIAL SERVICES

The OIG analyzed five potential approaches the Postal Service could take for expanding its financial services offerings. The first involves expanding services the Postal Service already offers under its current authority. The other four involve products that might be offered under broader authority, such as general purpose reloadable prepaid cards, small loans, and deposit accounts. The approaches are not mutually exclusive. While each could generate significant new revenue, actual results would depend on the particular partners, structures, products, and execution.

Approach	1. Expand Existing Services	2. One Key Partner	3. Multiple Partners	4. Marketplace	5. Post Bank
Description	Under its current legal authority, the Postal Service could beef up and modernize its money orders and international remittances, and launch market tests for adjacent services such as bill pay and expanded check cashing. The impact of this approach on the underserved would likely be smaller than that of other approaches.	Financial services could be expanded through one key partner, likely a diversified player that offers money transfers, prepaid cards, bill payments, and perhaps even loans and deposit accounts. The right partner's expertise could streamline operations and implementation, but the Postal Service may have limited flexibility to design and price products for maximum affordability.	The Postal Service could choose a different partner for each product. While working with specialized providers can lead to better, more flexible products, it could make implementation and operation more complex and the products less integrated than they would be with a single partner.	The Postal Service could become a distribution point for the financial products of a broad array of providers, including banks, credit unions, and non-bank financial companies. While this marketplace could bring scale to innovative, consumer-friendly services, a large pool of providers could make the program operationally challenging.	For the Postal Service to become a licensed bank focused on the financially underserved, it would require a long and likely arduous effort. While a Post Bank could advance financial inclusion significantly through deposit accounts and loans, the costs and regulatory burdens that would come with it could make this approach more risky than others.



Source: OIG graphic based on Mercator Advisory Group and OIG analysis.

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Approach 1: Expand Existing Services

The simplest way for the Postal Service to grow its financial services business is to expand the products it already offers, which include domestic and international paper money orders, international remittances (currently branded as Dinero Seguro/Sure Money), open- and closed-loop gift cards, and limited check cashing. The Postal Service also has authority to rent out space in post offices for things like ATMs.[21] With the exception of domestic money orders, these products are sold in small volumes at relatively few locations, and most of these products receive little, if any, advertising or strategic oversight. Yet some have tremendous potential for growth — particularly check cashing and international remittances. Substantive changes in the product design, pricing, and marketing of current offerings could bring great improvements in serving customers and enhance the financial performance of the Postal Service's current portfolio.

While the 2006 Postal Accountability and Enhancement Act (PAEA) generally prohibits the Postal Service from offering new nonpostal services, the Postal Service might be able to expand into adjacent services with the Postal Regulatory Commission's (PRC's) approval.[22] For example, the Postal Service began a market test to sell American Express open-loop gift cards in 2011.[23] It won approval from the PRC in August 2014 to make prepaid gift cards a permanent postal product in part because they function a lot like money orders and greeting cards, which were existing postal products.[24] Similar logic may apply to other services as well, including electronic money transfers, expanded check cashing, bill pay, and postal operated ATMs (see Figure 4 below).[25] However, under PAEA, the PRC must approve all proposals for new products before they are allowed to be offered. In addition, because even small changes in prices generally require approval, the Postal Service's ability to react quickly to changes in the fast-paced financial services market could be hindered. Finally, this approach may not be as beneficial to the financially underserved as other approaches, given the limits on products.

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21 39 U.S.C. § 401(5).
22 39 U.S.C § 404(e)(2).
23 U.S. Postal Service, *Postal Bulletin 22312, Gift Cards Market Test Launch*, June 2, 2011, http://about.usps.com/postal-bulletin/2011/pb22312/html/info_008.htm.
24 Postal Regulatory Commission (PRC), "Order Granting Request to Add Gift Cards to the Competitive Product List," Order No. 2145, Docket No. MC2014-26, August 8, 2014, http://www.prc.gov/docs/90/90138/Order%20No.%202145.pdf, pp. 4,12,13.
25 Some potential services discussed in the OIG's January 2014 white paper *Providing Non-Bank Financial Services for the Underserved*, such as small loans or saving accounts linked to prepaid cards, would likely not be permissible under the Postal Service's current authority.

Some 13 million Americans bought a postal money order in 2013.

Figure 4: Which Products Might Be Allowed?

WHICH PRODUCTS CAN THE POSTAL SERVICE PROVIDE UNDER CURRENT LAW?

While current law limits the Postal Service's authority to offer new products, it can make proposals to its regulator to move into adjacent products. Whether proposals gain approval depends on many factors, including the strength and quality of the proposals and the opinions of the regulator's commissioners. While there are no definitive answers and approval is not guaranteed, we do have some educated guesses as to which products may be good candidates for expansion under current law. Note that this analysis does not constitute a legal decision or opinion.

Product or service	What might be allowable?	What is probably not allowable under existing authority?
Electronic money transfers	• Electronic transfer of money similar to existing paper money orders and international money transfers • Transfer of funds between post offices and/or partner locations ("node to node")	• The Postal Service managing an account into which consumer funds are transferred
Check cashing	• Broader cashing of checks from Treasury and the Postal Service; possibly state and local government checks, as well as payroll checks	• The direct deposit of checks into an account, including one tied to a prepaid card
Bill payment	• In-person or electronic bill payments, if determined to be ancillary to sending hardcopy bill payments though the mail • Payment of federal government bills; possibly state and local bills, too	• Any bill payment services, if determined to not be ancillary to sending hardcopy bill payments through the mail
Prepaid cards	• Additional non-reloadable cards • Deposit of federal benefits and payments; possibly state and local benefits, too	• General-purpose reloadable cards • Loading of personal funds • Linked savings features
ATMs	• Renting space inside post offices for ATMs • Owning ATMs that operate in post offices	• Operating enhanced ATMs that offer services that the Postal Service is not otherwise authorized to provide

The following section will highlight how some of the key products under this approach could be structured or modified to be more effective.

Money Orders

The Postal Service sold 97 million money orders in 2014, bringing in $165 million in revenue.[26] The roughly 13 million people who buy postal money orders each year — many of them regular customers who come in every month — are strategically important for the Postal Service's broader expansion into financial services, as many of these customers would likely use other postal financial products.[27] However, the overall market for paper money orders is shrinking, as electronic and other forms of payment have grown. Postal money order volume has fallen by about 6 percent annually over the past few years.[28]

26 Money orders generated attributable costs of $99.7 million, resulting in a $66 million contribution to the Postal Service's overhead costs. U.S. Postal Service, *FY 2014 Public Cost and Revenue Analysis Report,* http://www.prc.gov/docs/91/91009/USPS-FY14-1.Preface.pdf, pp. 2, 5.
27 Among users of alternative financial services, one-third utilizes more than one type. FDIC, *2013 FDIC National Survey of Unbanked and Underbanked Households,* p. 43.
28 The Postal Service also offers international paper money orders, though the transaction volume is low with limited growth prospects. For the purposes of our analysis,

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There is an axiom in business that it is much easier to hold onto an existing customer than to attract a new one. When it comes to money orders, the Postal Service could keep more of those customers by better leveraging its strengths in the money order business. For example, anecdotal evidence suggests that many payment recipients — particularly online sellers — will accept Postal Service money orders, but not personal checks or money orders sold by private businesses like convenience stores, pharmacies, or check cashers.[29] This may be partly because postal money orders are perceived to be more secure, are issued by a government entity, and can be redeemed for cash at post offices (provided there are funds available), allowing the receiver to get their money more quickly and reliably.

The Postal Service could market these advantages — particularly to small online sellers that often use the Postal Service to ship their merchandise. By receiving a postal money order as payment, sellers avoid the processing fees they must pay for other types of payment, which are often 2.9 percent of the sale price, plus a fee.[30] They also could redeem the money order at a post office at the same time that they mail the merchandise to the buyer.

Walk-In Bill Pay

As people use fewer money orders, one of the alternatives they are using instead is bill pay. These services are essentially money orders that go to a particular receiver — typically a business that takes in a high volume of consumer payments, such as utilities, cable, cell phone, and credit card companies. Consumers come in, often with their paper billing statement in hand, and pay their bills with cash or a debit card. The provider then transfers their remittance to the biller, with the fee often depending on how quickly the customer wants the payment to arrive. This can be a quicker way to pay than a paper money order, and it does not require the consumer to mail a remittance. Given how integral the Postal Service is to the delivery of bills and of payments, this product could be seen as a natural extension of its existing services. There also could be significant opportunity to create an online bill payment service catered to people paying with prepaid or debit cards.[31] The fact that many people strongly associate the Postal Service with paying bills could be a significant advantage in this space. While bill pay could erode some money order volume, the Postal Service might gain overall by attracting new customers and by transitioning some money order customers into a new and more modern product that might better meet their needs.

Many people cashing their paychecks at a post office may use those funds right away to pay bills, purchase money orders, or send money to family overseas or across the country.

Payroll Check Cashing

Check cashing allows consumers to bring in a check (typically a paycheck) and convert it to cash for a fee. The Postal Service currently allows the cashing of Treasury and Postal Service checks at post offices, though it is up to the discretion of each location.[32] A broader expansion into payroll check cashing could be a significant opportunity, given that these checks represent the beginning of the payments cycle. Consumers regularly cash their check, then immediately use the funds to pay bills at the counter, purchase money orders to pay rent, reload a prepaid card, or send money to family domestically or abroad. Simply put, payroll check cashing leads to the sale of many other financial products and could allow the Postal Service to reach significantly more underserved consumers, saving them money and making their lives easier by allowing them to do this all at one convenient location.[33]

"money orders" generally refers to domestic paper money orders.

29 "Should I accept USPS money order as payment for an item?," November 19, 2013, post on eBay Community Discussion, http://community.ebay.com/t5/Archive-Miscellaneous/Should-I-accept-USPS-money-order-as-payment-for-an-item/td-p/18359545.

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

31 The Postal Service previously offered an online bill payment system called eBillPay from 2000 to 2004. This service allowed users to view and pay bills online and businesses without electronic bill payment capabilities to receive payments through paper checks sent by First-Class Mail.® For more information, please see Ina Steiner, "USPS Enhances eBillPay & Priority Mail Services," *eCommerce Bytes*, September 9, 2001, http://www.ecommercebytes.com/cab/abn/y01/m09/i10/s03.

32 U.S. Postal Service, "Handbook F-101 Revision: New Account Identifier Code 255, Treasury Check Cashing Fee," *Postal Bulletin 22326*, 2011, http://about.usps.com/postal-bulletin/2011/pb22326/html/updt_007.htm.

33 Broader check cashing could be seen as ancillary to money orders and other postal products if it was shown that a large portion of customers cashing checks at post offices immediately use those funds to purchase money orders or otherwise enhance the use of the mail.

Fraud is a key risk in check cashing, and licensing varies from state to state. The Postal Service would need to determine whether it wants to take on that risk and the time and expense of licensing, or employ a partner to manage it. The Postal Service has an especially critical asset to help it guard against check cashing fraud — its law enforcement branches, the Postal Inspection Service and the OIG.[34] This may help make the Postal Service's risk of fraud lower than that experienced by other check cashers.

International Money Transfers

International money transfers make up a large and growing market, with U.S. residents sending $131 billion abroad in 2014.[35] Unfortunately, the Postal Service's Dinero Seguro (also known as Sure Money) product is not well positioned to capitalize on that market. Use of the service, which allows customers to wire money to nine Latin American countries through a partnership with Bancomer Transfer Services, is languishing after years of steep declines — despite significant overall growth in the remittance market. However, with some changes, the Postal Service could create a successful international money transfer business that benefits millions of Americans.

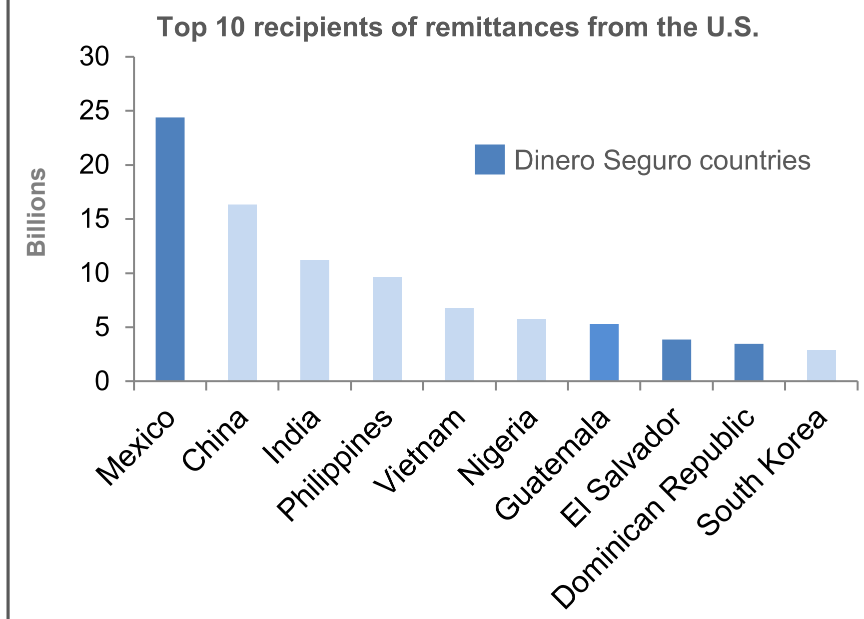
Dinero Seguro only serves four of the top 10 recipient countries for U.S. remittances. An easy way to grow the business would be to expand it to the other high volume nations (see Figure 5). Among the countries where it does operate, Dinero Seguro has a small fraction of a percent of the market. That may be partly due to a lack of public awareness about the product, which was only sold in 800 post offices in FY 2014.[36] A strategic expansion to more post offices (particularly those in areas with large immigrant populations), along with more effective marketing, could boost sales significantly. Currently, decisions as to whether to offer the product are made locally, not nationally, and many locations may have limited incentive to begin carrying it.

The Postal Service also could reexamine its pricing strategy for Dinero Seguro. Rather than using market rates for each country, Dinero Seguro charges the same amount regardless of destination — making it among the most expensive options for wiring money to many of the countries where it operates.[37] Additionally, while most providers have online or mobile tools allowing customers to easily see how much money the transfer recipient will get, the Postal Service offers no information about exchange rates on its website. To determine the transfer amount in the destination currency, Dinero Seguro customers must go to a post office, ask for the associated fees and exchange rate, and calculate it themselves. If the Postal Service revamped and

Figure 5: Top 10 Remittance Recipients

OPPORTUNITY FOR EXPANSION

The top 10 countries where Americans send money account for more than two-thirds of the $131 billion sent abroad each year. But Dinero Seguro (Sure Money), the Postal Service's international money transfer service, only serves four of those countries.



Source: OIG graphic based on World Bank's 2014 Bilateral Remittance Matrix.

34 The Postal Inspection Service is under the authority of postal management and focuses on externally-generated fraud and other crimes, while the OIG is an independent law enforcement and oversight agency that focuses on internally-generated fraud and misconduct.
35 World Bank, *Bilateral Remittance Matrix*, 2014, http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/Bilateral_Remittance_Matrix_2014.xlsx.
36 U.S. Postal Service retail database.
37 Mercator Advisory Group analysis.

expanded Dinero Seguro beyond its current reach and into the top markets, it could become a truly useful and robust product. If it captured 3 percent of the remittance market in those countries, it would generate some $163 million in annual revenue after 5 years, according to Mercator's analysis.[38]

The Postal Service also could consider joining the Universal Postal Union's International Financial System (IFS), which enables secure money transfers through postal organizations across the globe. This may allow for a quicker implementation and lower costs than constructing a new system from the remains of Dinero Seguro.[39]

Post Office-to-Post Office Money Transfers

For the most part, the United States lacks a modern, widespread, convenient, and affordable method to transfer cash from one person to another and have the funds be available in a matter of minutes. Online transfers from banks or other providers are often free, but they can take several business days to complete, thanks to the antiquated bank-to-bank transfer system in the United States known as the Automated Clearinghouse, or ACH. A system built decades ago is inadequate for meeting citizens' modern needs today.[40] Consider that Amazon can deliver millions of products to customers the next day or even within an hour, but it takes Amazon Payments — which relies on ACH — up to 5 days to complete an electronic money transfer to a bank account.[41]

Surprisingly, domestic money transfers can cost twice as much as international transfers.

Among leading existing options for transferring cash, domestic transfers oddly often cost significantly more than international ones. For example, it costs $8 to send $300 from Arlington, VA, to Mexico from a Western Union (the market leader) agent, and have the funds be available for pickup in minutes. The same transfer to, say, Cleveland, costs $12.50. A $1,500 transfer of the same type costs $15 to send to Mexico, but costs $30 to a domestic location.[42] This price discrepancy is actually much smaller than it recently was. Western Union dramatically reduced its prices for domestic transfers in April 2015, cutting the cost of a $1,000 domestic transfer, for example, from $86 to $12.50.[43]

Post office-to-post office money transfers would be akin to electronic money orders, and could be a significant opportunity for the Postal Service. Given that the Postal Service already has an electronically linked internal network and would not require a complex network of agents, it could have much more control over the entire transaction with fewer or no middlemen taking a cut. This would likely allow it to offer immediate transfers at lower prices than others in the market. Walmart launched a similar service in 2014 called Walmart2Walmart, which allows customers to transfer money between Walmart's more than 4,000 domestic locations.[44] However, the Postal Service has eight times as many internally managed locations as Walmart, which could provide consumers with considerably more flexibility in where they send and receive the money — particularly in urban areas where Walmart has relatively few locations. Moreover, because these are node-to-node transfers, the fact that the postal network is ubiquitous means that both the sender and the recipient of the transfer are more likely to be near a location convenient to them. The current operating hours at many post offices may not be convenient for all customers, but these hours could be adjusted to reflect customer demand if necessary and appropriate.

38 Assumes an expansion into all 10 of the top recipient countries for remittances.
39 If the IFS were considered a competitive product, it would have the same cost coverage requirements as all other competitive products. Specifically, they must cover their own attributable costs, and all competitive products together must collectively cover 5.5 percent of the Postal Service's overall institutional costs.
40 There are indications that community banks have generally supported past efforts to introduce a modern system for electronic money transfers that would replace ACH, but major banks may have opposed such proposals. For more information, please see Kevin Wack, "How Big Banks Killed a Plan to Speed Up Money Transfers," *American Banker*, November 13, 2013, http://www.americanbanker.com/issues/178_219/how-big-banks-killed-a-plan-to-speed-up-money-transfers-1063631-1.html?zkPrintable=1&nopagination=1.
41 "Episode 489: The Invisible Plumbing Of Our Economy," *NPR Planet Money*, October 4, 2013, http://www.npr.org/blogs/money/2013/10/04/229224964/episode-489-the-invisible-plumbing-of-our-economy.
42 Western Union, "Fees for Western Union Services," https://www.westernunion.com/us/en/price-estimator/start.html.
43 Kevin Wack, "Walmart Shakes Up Domestic Money Transfer Market," *American Banker*, May 4, 2015, http://www.americanbanker.com/news/consumer-finance/walmart-shakes-up-domestic-money-transfer-market-1074137-1.html.
44 Walmart charges $4.50 for transfers up to $50 and $9.50 for transfers of up to $900. Euronet subsidiary Ria acts as the licensed money transfer operator for the service. For more information, please see Walmart, "Walmart Introduces Exclusive Money Transfer Service, Cuts Fees by up to 50 Percent for Customers," news release, April 17, 2014, http://news.walmart.com/news-archive/2014/04/17/walmart-introduces-exclusive-money-transfer-service-cuts-fees-by-up-to-50-percent-for-customers.

ATMs

The Postal Service has the legal authority to rent out post office space for things like ATMs.[45] Moreover, because it already offers a cash back option for debit card users at its point-of-sale terminals, there could be a clear legal pathway for the Postal Service to go beyond merely renting space for ATMs to actually owning and operating its own ATMs for general cash withdrawal services. There are likely at least 11,000 post offices with sufficient foot traffic to warrant machines.[46] These ATMs could be part of a surcharge-free network that allows families on public assistance to get cash off their benefit cards without a fee.[47] In California, for example, families that receive aid through programs like CalWORKS spend $19 million a year on ATM fees to access their money, thanks mostly to out-of-network charges.[48] No- or low-fee ATMs that accept CalWORKS cards are not always in locations where recipients live, or are not labeled clearly enough so that recipients can reliably determine whether they will need to pay a fee to get cash.[49] Post offices could be a big part of that solution. The Postal Service could place its ATMs in areas like lobbies that are accessible after post office windows close for the day, so that customers can access ATMs anytime, similar to how they can access Post Office boxes now.

Post offices could provide ATMs where recipients of government benefits could withdraw funds without paying a fee.

Financial Opportunity Estimate for Approach 1

By improving existing financial services and expanding into adjacent products, the Postal Service could generate $1.1 billion in annual revenue after a 5-year ramp up, according to Mercator's and the OIG's estimates. (Please see Figure 6 below for more details.) These estimates come with some important caveats and assumptions:

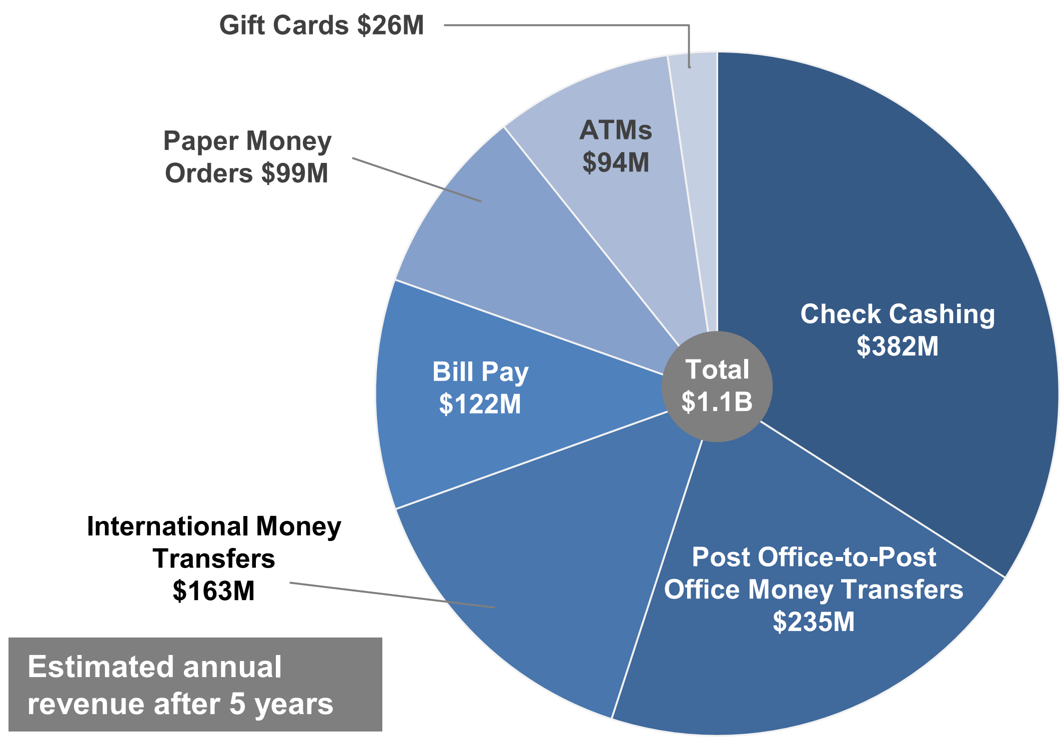
- The analysis assumes that each product has been in operation for 5 years. Given that products would likely not be rolled out all at the same time, and that new products could face a lengthy review process at the PRC, it could take more than 5 years for every product to be in place.
- Some services would only be rolled out to post offices with enough demand to justify the expense of carrying the products.
- The effort is led by an experienced financial executive with a dedicated team.
- Actual results would depend heavily on execution, marketing, product design, economic conditions, and other factors. Building a $1 billion business is not easy and, while doable, would require significant focus and effort.
- Working with Mercator, we conducted high-level cost analyses that determined that these products could cover their costs on an operating basis and contribute profits. This is, in part, because the Postal Service already has a staffed physical network across the entire country, which would help it avoid additional overhead costs like real estate and external agent costs — which are among the biggest expenses for alternative financial services providers.[50] However, our report includes only formal revenue estimates.
- A detailed description of our revenue estimate is in Appendix B.

45 39 U.S.C. § 401(5).
46 Based on OIG analysis of foot traffic at post offices, industry standards on ATM transaction volume as a percentage of foot traffic, and typical operating costs for non-bank ATMs. For more information on the methodology behind these estimates, please see Appendix B.
47 ATMs in surcharge-free networks can generally be used by anyone. However, members of the network pay low or no fees.
48 California Reinvestment Coalition, *The $19 Million ATM Fee: How Better Banking Services Would Protect Our Public Investment in Families*, March 2014, http://calreinvest.org/system/resources/W1siZiIsIjIwMTQvMDMvMjQvMjFfNDJfMTRfODQxXzE5X01pbGxpb25fQVRNX0ZlZV9DUkNfUmVwb3J0Xy5wZGYiXV0/19%20Million%20ATM%20Fee%20(CRC%20Report).pdf, p. 1.
49 Kevin Short, "How Big Banks Swipe Millions From Welfare Recipients," *The Huffington Post*, April 3, 2014, http://www.huffingtonpost.com/2014/04/03/bank-fees-welfare_n_5072087.html.
50 Pew Charitable Trusts, *Auto Title Loans: Market Practices and Borrowers' Experiences*, March 2015, http://www.pewtrusts.org/~/media/Assets/2015/03/AutoTitleLoansReport.pdf, p. 5.

Figure 6: Potential Revenue from Expanding Existing Services

EXPANDING EXISTING FINANCIAL SERVICES COULD GENERATE $1.1 BILLION IN ANNUAL REVENUE

By revamping existing financial products and expanding into adjacent services, as may be allowed under current law, the Postal Service could reap substantial financial benefits. Mercator Advisory Group and the OIG estimate annual revenues of $1.1 billion after a 5 year ramp up. A product level breakdown is below, showing that check cashing, post office-to-post office money transfers, and international money transfers represent the biggest financial opportunities.



Assumptions: The Postal Regulatory Commission approves all product changes and proposals, some products would be limited to high traffic post offices, and the effort is led by an experienced financial professional with a dedicated team. Actual results would depend on execution, marketing, product design, economic conditions, and other factors. See Appendix B for a product-by-product methodology.

Source: OIG graphic based on Mercator Advisory Group and OIG analysis.

Revenue vs. Profit

Note that the $1.1 billion estimate reflects revenue, which is the total amount of money generated from the sale of financial products. To calculate "profit" or "contribution," as it is known in postal parlance, you would need to look at the costs the Postal Service incurs to offer financial services. It would not be possible for the OIG to do a comprehensive cost analysis of these products at the level of the revenue analysis because it would require assumptions about exactly how the Postal Service would implement these products, including any cost share arrangements with potential partners.

However, Mercator and the OIG did conduct a series of preliminary cost analyses that give us some confidence that these products would be profitable. We found there could be a broad range of financial returns across products. For example, if post office-to-post office domestic money transfers could be done internally or with limited outside support, the costs for internal electronic notification and limited cash handling/clerk service on either end may be very low, allowing for a strong contribution. On the other hand, if the Postal Service owned ATMs, and each generated an average number of transactions and average costs for non-bank machines, then the profits might be on the smaller side. Perhaps the most concrete indication of the potential profitability of postal financial services is the money order business. In 2014, Postal Service money orders generated $165 million in revenue and $99 million in costs, producing a contribution of $66 million and a profit margin of 40 percent.[51] While not as high as the 55 percent profit margin the Postal Service earns on First-Class Mail, money orders make a worthwhile contribution to the Postal Service's bottom line. The Postal Service may earn similar profit margins on other financial products suggested in this report.

51 U.S. Postal Service, *Public Cost and Revenue Analysis: Fiscal Year 2014*, p. 2.

Reliable Financial Estimates for Approaches 2 through 5 Require Additional Information

While the remaining four approaches could each generate billions of dollars in revenue for the Postal Service, Mercator and the OIG could not make specific financial estimates with a sufficient level of confidence. This is because results would be driven largely by unknowable factors, such as the specific financial partner(s), the structure of the Postal Service's agreement with them, the time required to fully implement each approach, the uncertainty of necessary legal changes, and the particular products and pricing offered by the partner(s). As such, our analysis of approaches 2 through 5 is largely qualitative.

Approach 2: One Key Partner

The Postal Service could expand its financial services offerings by working with one key partner that provides the bulk of those services. This could be a diversified non-bank provider, a large financial institution, or a behind-the-scenes distributor of financial products. Our analysis of this approach (as well as approaches 3-5) assumes the Postal Service would have expanded authority to offer general purpose reloadable prepaid cards, small loans, and perhaps even deposit accounts.

The key advantage of this approach is the ease of implementation and management of the business line, given that the partner could handle most of the financial regulatory and compliance issues. The rollout could be quick, and the products would likely be highly compatible and complementary because they would be offered in conjunction with only the sole partner. In addition, the integration between products — including those offered online or on mobile devices — would likely be much simpler. The partner also would be highly invested in the success of postal financial services.

The downsides to this approach are that the Postal Service would be limited to the specific products the partner provides and may have little flexibility to design or price products to be more competitive. Moreover, should the partner run into any legal, regulatory, or reputational problems (as many financial institutions have in the past decade), the Postal Service could see its entire product suite come under pressure and scrutiny. In addition, some stakeholders may be displeased about the Postal Service sending all of its financial services business to a single partner.

Approach 3: Multiple Partners

The Postal Service could expand its financial offerings by using different partners for each product. The Postal Service already does this to some extent, given that it works with Bancomer Transfer Services on international money transfers, American Express on open-loop gift cards, and Blackhawk Network on closed-loop gift cards. Other partners could include money transfer companies, small dollar lenders, banks, or even a consortium of postal-affiliated credit unions. By working with specialized providers, the Postal Service could offer a much broader array of services than it could with a single key partner. At the same time, it could outsource some of the operational and financial regulatory complexities that come with many financial products. It also would have more flexibility to solicit particular products that are designed and priced in a way that benefits the financially underserved — perhaps even on a regional or local basis.

A key downside of this approach is that it could take significantly more time to establish and roll out a suite of financial services offered through many different partners than it would if those services came from only a single partner. Securing, managing, and maintaining multiple relationships also is more administratively complex and could make such an approach more costly and cumbersome.

Approach 4: Marketplace

Another option for the Postal Service is to establish a marketplace for the financial products of others. This differs from the Multiple Partners approach in two key ways. First, the products would not be branded as "postal." They would carry the name of their provider, and would merely be sold or distributed by the Postal Service. Second, there would be multiple offerings of the same type of product, from different providers. For example, money transfers of different brands would be competing side-by-side in the marketplace. Financial players large and small could gain access, so long as their products meet basic consumer protection and regulatory criteria.

This model would create a platform under which market forces could separate the wheat from the chaff, giving customers convenient access to the most consumer-friendly products. It could bring scale to great new products that may lack the backing of major financial players. It also could have a strong online and mobile element, complete with customer reviews and recommendations. If the marketplace attracts good providers, this could lead to strong outcomes for the underserved and a slew of new product opportunities, perhaps including the latest innovations in payments, peer-to-peer loans, and services that help consumers manage the volatility of their income by turning large lump sum windfalls (such as tax refunds) into monthly payments. Community banks and credit unions also could benefit by using post offices to supplement their branch networks.

On the downside, it could take significant time to negotiate deals with partners under this approach, making the timeframes to rollout quite long. In addition, it could be administratively complex to recruit, manage, account for, and pay a large number of providers, each of which may have different compliance requirements that the Postal Service would need to fulfill — particularly if banks and credit unions join the marketplace. In addition, some providers may not sell enough volume on the marketplace to cover their costs, perhaps causing them to remove their products. That churn could lead to customer confusion and additional administrative expenses. This approach also may bring in less revenue compared to the other approaches, given that the Postal Service's share of each product sold would be much smaller. It would need to generate more volume to make up for the smaller revenue intake and much higher administrative costs. However, if these challenges were overcome, a marketplace approach could be an effective way for the Postal Service to deliver high quality financial products to everyone across the country — a truly modern twist on universal service.

Approach 5: Post Bank

Perhaps the most aggressive approach the Postal Service could take is to become a licensed financial institution focused on the financially underserved. The OIG is not recommending a post bank, but chose to include this approach in its analysis to respond to questions about the full range of ways that postal financial services could be expanded. Establishing a post bank could have the largest impact on financial inclusion, bringing significant numbers of underserved families into the financial mainstream.[52] As a bank, the Postal Service could take customer deposits and use them to fund loans, giving it maximum ability to affect financial inclusion. While the Postal Service offered bank accounts through the historical Postal Savings System (1911 to 1967) and many posts abroad operate as licensed banks, getting a new bank charter might require many years of arduous effort to overcome political, industry, and regulatory obstacles.[53]

The potential revenue from this approach could be significant. However, if the Postal Service were to succeed in becoming a bank, the risks, costs, and regulatory burdens that would come with it would pose tremendous challenges. For starters, the Postal Service may have to retrofit offices, hire significant financial expertise, build internal systems on a massive branch network, raise billions of dollars in capital, and bring in a staff of compliance managers. The uncertainties and downsides make this approach less viable than other approaches, at least in the short term.

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52 Alexandre Berthaud and Gisela Davico, *Global Panorama on Postal Financial Inclusion: Business Models and Key Issues*, Universal Postal Union (UPU), March 2013, http://www.upu.int/fileadmin/documentsFiles/activities/financialInclusion/publicationGlobalPanoramaFinancialInclusionEn.pdf, p. 37.
53 U.S. Postal Service, *Postal Savings System,* July 2008, https://about.usps.com/who-we-are/postal-history/postal-savings-system.pdf.

Key Implementation Factors to Consider

The Postal Service would need to consider many important factors before introducing additional financial services. Relying in part on the experiences of international postal organizations with successful financial services operations, we have outlined some of those factors below.

Legal and Regulatory Landscape

The regulatory landscape for financial products is quickly changing, which could shape how the Postal Service designs its offerings.

International research shows that the legal and regulatory environment that a post operates in can be the most important factor for determining what financial services it can provide.[54] It is by no means guaranteed that the PRC would approve the products the Postal Service proposes and it might take significant effort and time to make the up-front legal case. After that, current regulation by the PRC might limit the Postal Service's flexibility to make necessary changes in response to local market needs. In addition, the Postal Service's legal requirements would go beyond PAEA. Numerous other laws and regulations apply to alternative financial services and could be directly relevant to any new products. The regulatory landscape for alternative financial services is quickly changing, especially since the formation of the Consumer Financial Protection Bureau (CFPB) in 2011.[55] New regulations on products such as prepaid cards and small-dollar loans add to existing requirements from state regulatory agencies.[56]

The law also limits the Postal Service's ability to share customer data, which could be disappointing to potential financial services partners because it would hinder their ability to use customers' transactions and usage habits to market additional related products.[57] However, postal customers can voluntarily "opt-in" to share their personal information, which might enable the Postal Service to share more information with partners.[58]

Effective Cash Management

If post offices offer check cashing, domestic money transfers, or small loans, they will need enough cash on hand to complete those transactions. The precise amount will vary greatly across locations, with some post offices likely to have very few transactions and others that may regularly have lines out the door. It also will vary depending on the time of the week, month, or year when people are more likely to cash checks.[59] Managing those needs effectively will be essential if the Postal Service wants to avoid turning customers away because there is not enough cash on hand. Fortunately, the locations that are likely to have significant check cashing or loan volume also would have the most cash on hand — which comes from the sale of money orders. In fact, money orders are by far the largest source of cash for post offices, often bringing in hundreds of dollars per transaction. Bill pay and expanded international remittances also would bring in significant amounts of currency. Instead of all that cash being taken to a bank in an armored truck, much of it could be given back out to consumers who are cashing checks or getting loans.

International research shows that posts can help improve their cash logistics by implementing automated cash management systems. Such systems can provide daily or even real-time updates on how much cash is available at each connected post office.

54 Alexandre Berthaud and Gisela Davico, *Global Panorama on Postal Financial Inclusion: Business Models and Key Issues,* p. 60.
55 CFPB, "CFPB Ready to Help Consumers on Day One," news release, July 21, 2011, http://www.consumerfinance.gov/newsroom/consumer-financial-protection-bureau-ready-to-help-consumers-on-day-one/ and "Regulations," http://www.consumerfinance.gov/regulations/.
56 CFPB, "CFPB Proposes Strong Federal Protections for Prepaid Products," news release, November 13, 2014, http://www.consumerfinance.gov/newsroom/cfpb-proposes-strong-federal-protections-for-prepaid-products/ and Alan Zibel, "Can High-Cost Payday Loans Be Made 'Affordable' For Borrowers?," *Wall Street Journal*, January 5, 2015, http://blogs.wsj.com/totalreturn/2015/01/05/can-high-cost-payday-loans-be-made-affordable-for-borrowers/.
57 For example, the Privacy Act of 1974 spells out specific requirements for how federal agencies (including the Postal Service) collect, store, use, disclose, and discard any personal information they collect from consumers and other individuals, and maintain in a "system of records." The Postal Service has policies to comply voluntarily with the E-Government Act of 2002 and other federal laws related to privacy. For more information, please see U.S. Postal Service, *Handbook AS-353: Guide to Privacy, the Freedom of Information Act, and Records Management*, https://about.usps.com/handbooks/as353/welcome.htm, and The Privacy Act of 1974, 5 U.S.C. § 552a.
58 U.S. Postal Service, *Handbook AS-353, Guide to Privacy, the Freedom of Information Act, and Records Management*, Section 3-2.3.
59 For example, check cashing volume will likely spike on Fridays and during times when many people receive tax refunds.

After bringing in leadership with financial sector experience, Italy's Poste Italiane began offering financial services and turned its first operating profit.

These systems can even provide previous years' data on cash usage so that managers can get better estimates on how much cash is necessary for current operations.[60]

As for security, the Postal Inspection Service already gives extra attention to post offices that sell a high volume of money orders, given the large amount of cash involved.[61] The Inspection Service could continue to play an important role as the volume of cash increases.

A Dedicated Internal Team

For postal financial services to succeed, it is critical that the post have significant buy-in and support from top management, as well as adequate training for its front-line staff.[62] International research has found that most successful entries into postal financial services are due, in part, to posts having an internal champion or group focused on financial products. Some posts have had great success bringing in executives from the private sector with specialized knowledge and expertise to spearhead their new offerings. For example, Italy's Poste Italiane had faced 50 years of red ink when an innovative new CEO from the financial sector, Corrado Passera, took the helm in 1998. Under his direction, Poste Italiane was restructured and re-launched with a strong rebound in efficiency, new business models, and the entry into financial services. In 2002, the company recorded its first operating profit.[63]

For the U.S. Postal Service, a dedicated internal team could also help the organization gain the expertise and focus it would need to keep pace with technological and business changes in the U.S. financial services market. While the Postal Service has long been a leading player in alternative financial services, this represents a relatively small proportion of its overall business. Most of its strategic resources and expertise are currently in mail and package delivery. To successfully implement financial services, there must be leadership and managers who are not just postal veterans, but also have the financial industry knowledge, experience, and enthusiasm necessary to keep the financial services business line from getting lost in the larger organization that is the Postal Service.

The approaches that benefit the underserved the most are also the most challenging and complex to implement.

Public Awareness of New and Existing Services

One of the key challenges plaguing some of the Postal Service's current financial offerings is a lack of public awareness that the products exist. Developing effective marketing for new and existing financial products will be crucial to their success. This includes not only spreading product awareness, but also using focus groups, surveys, and other techniques to get a good sense of what different segments of customers need.[64] Marketing programs also must be strategically targeted and managed well to work as intended, and considering different customer demographics could boost effectiveness. For example, an advertising campaign for international remittances could run in communities with a high number of immigrants and feature the native languages of those immigrants. Marketing of financial products does not have to involve expensive national television ads. Simple things like signage in post offices and giving out brochures with each money order sale could go a long way. In addition, postal clerks often know the regular users of money orders at their post office and could mention new financial products that may be of interest.

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60 Alexandre Berthaud and Gisela Davico, *Global Panorama on Postal Financial Inclusion: Business Models and Key Issues*, p. 55.
61 Based on an October 2014 conversation with an official in charge of security programs at the Postal Inspection Service.
62 Alexandre Berthaud and Gisela Davico, *Global Panorama on Postal Financial Inclusion: Business Models and Key Issues*, pp. 46, 49.
63 Ibid., p. 49; Scott Keller and Colin Price, *Beyond Performance: How Great Organizations Build Ultimate Competitive Advantage*, (Hoboken, New Jersey: John Wiley & Sons, Inc. 2011); and Consumer Postal Council, *Index of Postal Freedom: Italy – Poste Italiane,* *http://www.postalconsumers.org/postal_freedom_index/Italy_--_Poste_Italiane.shtml*.
64 Alexandre Berthaud and Gisela Davico, *Global Panorama on Postal Financial Inclusion: Business Models and Key Issues*, p. 63.

Redesigning existing services could provide significant benefits to the underserved and the Postal Service.

Market tests could demonstrate that potential new products enhance the use of existing postal services.

Trade-off between Ease of Implementation and Impact on Financial Inclusion

The experience of international posts shows that financial services business models with the largest impact on financial inclusion — such as becoming a full-fledged post bank — are generally the most difficult and costly to implement.[65] When posts have focused on simpler transactional products, they have a smaller overall impact on the level of financial inclusion. The Postal Service will face the same dynamic. While a financial services expansion can accomplish multiple goals at the same time, the Postal Service will need to find the right balance between feasibility and benefits to the underserved.

Potential Next Steps for the Postal Service to Consider

Given the five potential approaches and related implementation factors described above, we suggest some next steps for the Postal Service to consider as it decides how to proceed.

A Focus on Existing Services

Regardless of the Postal Service's long-range plans in the financial area, a hard look at the existing products and services close to its core seems like a logical first step. This could involve two primary elements: restructuring existing services and conducting market tests for potential new products.

Look into Restructuring Current Products

The Postal Service has financial services right now that already are useful to the underserved. However, as discussed earlier, some of these services — like Dinero Seguro — have significant opportunities for improvement. The Postal Service should take a close look at its existing products to see how changes in product design, pricing strategy, and marketing approaches could better meet the needs of the underserved and increase revenue. There are ready-made markets for products like money orders, international money transfers, and gift cards. Even if the revenues and volume have declined, updates to those products could make them more relevant to their users' lives. The Postal Service could even consider ending some underperforming products and replacing them with more efficient, modernized versions that bring in more revenue and provide greater benefits to the underserved.

Conduct Market Tests for Potential New Products

As explained earlier, the Postal Service can launch market tests for services that are related to those it already offers. These tests can demonstrate a product's viability and provide the opportunity for experimentation. Several financial services could be great candidates for market tests, including bill pay, expanded check cashing, and domestic electronic money transfers. The Postal Service could use the information collected during the tests to build a case to the PRC that a given product should become permanent. This is how the Postal Service won approval in 2014 for its prepaid gift cards. For example, if a large portion of consumers cashing payroll checks in a market test used those funds to buy money orders, the Postal Service may be able to argue that payroll check cashing should become a permanent postal service.[66]

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65 Ibid., pp. 37-38.
66 It is important to note that PAEA contains various cost coverage requirements and other rules affecting new experimental products offered under a market test. For more information, please see the Postal Accountability and Enhancement Act, Section 202 (codified at 39 U.S.C. §3633), Section 203 (codified at 39 U.S.C. §3641), and PRC, "Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products," Order No. 43, Docket No. RM2007-1, October 29, 2007, http://www.prc.gov/docs/58/58026/FinalRuleswithTOC.pdf.

Post offices in rural ZIP Codes sell 27 percent more money orders per capita than urban locations, suggesting that small town America could be a major beneficiary of expanded postal financial services.

The Postal Service could experiment with extending or changing the hours at high-traffic post offices to match the times when the demand from underserved customers is highest.

Focus on the Leap from Physical to Digital

Payments are increasingly shifting toward digital and mobile systems.[67] While the Postal Service's physical network is a key asset in the financial services space, it should not discount the importance of digital and mobile channels for its products and services. Many banks, for example, maintain large legacy branch networks, even though vast swaths of their customers do their banking on smartphones and computers.[68] If the banks refused to offer digital and mobile channels in favor of their branches, their customers would likely go elsewhere. If the Postal Service decides to expand its financial services offerings, it will face similar pressures. Failure to adapt to the shift to digital and mobile may result in the Postal Service being left behind.

Analyze Data Already on Hand to Gain Insights

The Postal Service has a trove of largely unexplored data about its existing financial services that could give it valuable insights about where and how customers are using those products. The money order data, given the high volume of transactions, is particularly insightful. It shows, for example, that 6,600 high volume post offices account for three-quarters of all money order sales.[69] Given that money order sales could be a good proxy for demand for other financial services, those locations could serve as a laboratory of sorts in which the Postal Service could test potential new financial products. While most sales happen in high volume, urban areas, the data also show that post offices in rural ZIP Codes actually sell 27 percent more money orders per capita than urban locations, suggesting that small town America could be a major beneficiary of expanded postal financial services.[70]

Start Small, Then Expand Strategically

Post offices with high volumes of money order sales could serve as an effective base for new financial services. Beyond those locations, the Postal Service could think strategically about how to expand the introduction of new products. Some services might best be limited to high-traffic post offices, whereas others might justify a national rollout if the public good is great enough or if there are relatively small marginal costs to adding such products to post offices with low foot traffic.

Another approach could be to expand the hours at the small core of high-traffic post offices. For example, analysis of the money order data indicates that the highest sales volumes are on Fridays and at the beginning of each month. This could mean that many consumers are coming in to post offices to purchase money orders on payday and when their rent is due. Expanding the hours at certain locations to meet demand could both benefit consumers and raise revenue.[71]

Stay Focused on Affordability

The need for more affordable financial options drives much of the public support for postal financial services. Whatever approaches the Postal Service considers adopting, it should strive to provide affordable products that improve the financial health of the underserved — even if it means that financial returns are not as strong as they might otherwise be. At the same time, the Postal Service cannot afford to embark on a significant endeavor that does not add meaningfully to the bottom line. While these goals must be carefully balanced, they are not mutually exclusive. The Postal Service's advantages — namely its existing ubiquitous retail network staffed with well-trained employees and its existing base of loyal alternative financial services

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67 Please see Appendix C for more information about mobile payment systems.
68 Olivier Denecker, Sameer Gulati, and Marc Niederkorn, *The Digital Battle that Banks Must Win*, McKinsey & Company, August 2014, http://www.mckinsey.com/insights/financial_services/the_digital_battle_that_banks_must_win.
69 OIG analysis based on the $21 billion face value of money orders sold by the Postal Service in FY 2014.
70 This estimate includes post offices with Point of Sale System (POS) and Retail Systems Software (RSS) reporting technology located in ZIP Codes recognized by the U.S. Census Bureau. These locations accounted for 86 percent of all money order sales in FY 2014.
71 One potential challenge to this type of expansion is POStPlan, under which the Postal Service is decreasing some low traffic post offices' opening hours to as little as 2 hours per day. For more information, please see U.S. Postal Service, *2014 Annual Report to Congress*, http://about.usps.com/publications/annual-report-comprehensive-statement-2014/annual-report-comprehensive-statement-2014.pdf, p. 48.

customers — would allow it to offer a suite of financial products at an affordable price while making enough money to be worthwhile. The popularity and financial success of the Postal Service's paper money order business demonstrates this.

Some alternative financial services come with inherent risk, particularly check cashing and small dollar loans. Many providers compensate by charging consumers high fees and interest.[72] The Postal Service could explore ways of managing that risk that do not compromise affordability. For example, it could employ an underwriting partner that uses non-traditional consumer data to assess risk levels in innovative ways.[73] In addition, new models for affordable small dollar loans are emerging but currently lack scale. The Postal Service could look into partnering with these innovators to bring them the scale they need to better serve Americans on a national level.[74]

Consider Advantages of Providing a Suite of Financial Services

Offering a wide suite of financial services as opposed to only one or two individual products could make all new products more effective, as well as greatly expand consumer choice. Some major retailers, such as Walmart, have been extremely successful in offering financial services in part because they have branched out to numerous products.[75] Given that many of the underserved use multiple alternative financial services, they may seek "one-stop shop" providers that can satisfy all their needs. In addition, there is complementarity between products. Check cashing, for example, often leads to the sale of additional products like bill pay and money orders. In this respect, the whole is greater than the sum of its parts.

Conclusion

Millions of underserved American families are hungry for more affordable financial options. If the Postal Service offered those services, they could be extremely popular. The Postal Service could take many different roads in this effort. A logical first step could be to revamp existing services to make them more appealing to consumers, then expand into adjacent products that could be allowable under current law. An experienced financial professional with a dedicated team could best guide these efforts. After gaining popularity with customers and proving the concept with stakeholders, the Postal Service could seek additional authority to offer new financial products. With the right execution and marketing, expanded financial services would benefit the underserved and shore up the strength of the postal network, helping to ensure that the Postal Service is ready to meet the needs of all citizens in the 21st century.

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72 However, losses can account for a relatively small portion of expenses for storefront payday lenders, compared to personnel and occupancy costs. This is because the average payday location serves only 500 unique customers a year. For example, payday lender Advance America's provision for doubtful accounts accounted for 24 percent of its store expenses in 2011 (the last year for which data are public), while personnel and occupancy costs accounted for 60 percent of expenses. As mentioned above, the Postal Service already has a staffed retail network. The Pew Charitable Trusts, *Payday Lending in America: Policy Solutions*, October 2013, http://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs_assets/2013/PewPaydayPolicySolutionsOct2013pdf.pdf, and p. 18, Securities and Exchange Commission, *Advance America, Cash Advance Centers, Inc. form 10-k*, http://edgar.sec.gov/Archives/edgar/data/1299704/000104746912002758/a2208026z10-k.htm#dm75101_item_6._selected_financial_data, p. 41.

73 Some companies use rental history, public records data, and other information to underwrite financial products for consumers who lack credit scores or are otherwise removed from the financial mainstream. For more information, please see Catherine New, "Experian Debuts New Credit Score, Helps Bring 'Underbanked' Into Lending Fold," *Huffington Post*, June 14, 2012, http://www.huffingtonpost.com/2012/06/14/experian-new-credit-score-extended-view_n_1596943.html.

74 For examples of these innovators, please see Sarah Gordon and Janis Bowdler, "Think Outside the Box to Solve Americans' Cash Flow Problems," *American Banker*, March 26, 2015, http://www.americanbanker.com/bankthink/think-outside-the-box-to-solve-americans-cash-flow-problems-1073459-1.html.

75 Maria Aspan, "Banking the Unbanked, Looking for Company," *American Banker*, November 30, 2011, http://www.americanbanker.com/special-reports/176_13/best-in-banking-innovator-of-the-year-thompson-1044486-1.html, and Deirdre Fernandes, "More relying on Walmart for financial services," *The Boston Globe*, July 10, 2014, http://www.bostonglobe.com/business/2014/07/09/walmart-isn-bank-but-consumers-are-choosing-its-financial-services/0oJtrqVKl8OXTuQ3SBtrSI/story.html.

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Appendix A: Highlights from OIG's 2014 Financial Services White Paper

Being underserved is not just a problem for inner city residents or those with low income. Many rural and middle class families are also underserved.

The OIG's 2014 white paper was a first look at what types of financial services the Postal Service might be able to offer to benefit the underserved. It made several key points:

- A profile of the financially underserved — Some 68 million adults live partially or completely outside the mainstream financial system.[76] They are geographically, economically, and demographically diverse, though certain groups are overrepresented, including people with low income, minorities, people under the age of 25, inner city residents, and others.[77] Because they have little savings and live close to the financial edge, unexpected expenses such as car repairs or medical bills often force them to seek credit from the likes of payday lenders. Those loans often come with fees that equate to a 391 percent annual interest rate and trap borrowers in a cycle of debt.[78] Total spending on alternative financial services topped $103 billion in 2013.[79]

- The Postal Service is well suited to help — Banks have been closing branches across the country, primarily in low-income neighborhoods — both rural and urban.[80] The Postal Service's ubiquitous physical network of approximately 35,000 retail locations gives it an unmatched reach into many communities where there no longer are any banks. In fact, 59 percent of internally managed post offices are in ZIP Codes where there are no bank branches (38 percent) or only a single bank branch (21 percent).[81] In addition, the public routinely gives the Postal Service very high marks for trust. The same cannot be said of banks, which generally have low public trust scores.[82] The Postal Service also has experience with financial services — including current services like money orders and international remittances, as well as past offerings like the Postal Savings System, which operated from 1911 to 1967. Furthermore, the paper discussed the financial services offerings at most postal operators around the world, where financial services are a significant driver of new revenue.[83]

- The Postal Service could offer payments, savings, and credit products — The paper laid out three general product categories for the Postal Service to consider, including affordable payments products such as prepaid cards, bill pay, check cashing, electronic money orders, and expanded international remittances. There could be features to some of these products that encourage customers to save money and build up a financial buffer to help them overcome unexpected expenses. The Postal Service also could consider affordable small dollar loans that could provide substantial savings compared to payday loans and other similar products now available in the market.

- Expanded postal financial services could have broad benefits — Any money the underserved save by using more affordable postal financial services rather than check cashers or payday lenders could trickle through the economy in a broadly beneficial way. The underserved might spend this money on things like groceries, gasoline, and medical bills, as well as bank and credit union debt such as auto loans and mortgages. The financial sector also could benefit through partnerships with the Postal Service to offer financial services. In addition, as the underserved gain a more solid financial footing, they may graduate to "fully banked"

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76 FDIC, *2013 FDIC National Survey of Unbanked and Underbanked Households,* p. 4.
77 Ibid., pp. 16-18.
78 Pew Charitable Trusts, *Payday Lending in America: Who Borrows, Where They Borrow, and Why*, July 2012, http://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs_assets/2012/PewPaydayLendingReportpdf.pdf, pp. 6-7.
79 CFSI, *2013 Financially Underserved Market Size*, December 10, 2014, http://www.cfsinnovation.com/Document-Library/2013-Financially-Underserved-Market-Size.aspx, p. 1.
80 Robin Sidel, "After Years of Growth, Banks are Pruning Their Branches," *The Wall Street Journal*, March 31, 2013, http://www.wsj.com/articles/SB10001424127887323699704578326894146325274; Nelson D. Schwartz, "Bank Closings Tilt Toward Poor Areas," *The New York Times*, February 22, 2011, http://www.nytimes.com/2011/02/23/business/23banks.html?pagewanted=all&_r=0; and David Hayes, et.al., "Banks Follow the Money and Exit Lower-Income Areas," *SNL Financial*, April 27, 2012, http://www.snl.com/InteractiveX/ArticleAbstract.aspx?id=14485078.
81 OIG, *Providing Non-Bank Financial Services for the Underserved*, p. 6.
82 Ponemon Institute, *Most Trusted Retail Banks for Privacy*, October 10, 2013, http://www.ponemon.org/local/upload/file/2013%20MTC%20Banking%20Briefing%20V2.pdf, p. 5., and Dennis Jacobe, *Americans' Confidence in Banks Up for First Time in Years*, Gallup, June 13, 2013, http://www.gallup.com/poll/163073/americans-confidence-banks-first-time-years.aspx.
83 Alexandre Berthaud, *Postal Banking Worldwide: Lessons for Deepening Financial inclusion and Ensuring Long-Term Viability of Postal Operators,* Pew Charitable Trusts, July 2014, http://www.pewtrusts.org/~/media/Assets/2014/07/FIN_Panel-2--Postal-Banking-Worldwide-by-Alexandre-BerthaudPurata.pdf, p. 3.

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Postal financial services could be a "win-win-win" — for the underserved, the financial industry, and the Postal Service.

status, providing new customers to banks. The Postal Service also could be a key beneficiary, as it gains an important source of new revenue during a time of declining mail volume.

- Strategic considerations for the Postal Service — While the Postal Service has experience in money orders and international remittances, expansion into more complex products could introduce a host of new challenges. The Postal Service could more easily overcome those challenges if it partnered with private sector financial players — perhaps including community banks and credit unions. It also could start small with pilot projects and win a few victories before a broader rollout of new services.

Appendix B: Methodology for Revenue Estimates

This appendix provides details on the methodology the OIG and Mercator Advisory Group followed to assess the potential revenue the Postal Service could gain from offering the products included in Approach 1. Altogether, we estimate that these products could generate $1.1 billion in annual revenue by year 5, when the products would likely reach full rollout. In our analysis, we attempted to create careful, reasonable estimates that are grounded in sensible assumptions based on financial and postal industry data. Working with Mercator, we also conducted a high-level cost analysis that determined that these products could be profitable on an operating basis.

The following table summarizes our estimates for the revenue from each potential product at year 5. In the pages following this table, we provide a breakdown of our estimates and assumptions for each product.

Table 1: Summary of Product Revenue

Financial product	Revenue estimate at year 5 (millions)
Check cashing	$382
Post office-to-post office money transfers	$235
International money transfers	$163
Bill pay	$122
Money orders	$99
ATMs	$94
Gift cards	$26
TOTAL REVENUES	**$1,122**

Table 2: Check Casting

	Per Unit	Year 1[1]	Year 2	Year 3	Year 4	Year 5
Customers[2]		596,533	1,193,066	2,386,132	3,579,198	4,116,078
Checks/person[3]		18.6	18.6	18.6	18.6	18.6
Volume[4]		11,076,902	22,153,805	44,307,609	66,461,414	76,430,626
Average check cashing fee[5]	$5					
TOTAL REVENUES[6]		**$55,384,512**	**$110,769,023**	**$221,538,047**	**$332,307,070**	**$382,153,131**

Notes/Assumptions

1. Because check cashing would be a new product, the Postal Service would likely have to begin with a market test of limited scope and seek approval from the PRC to make check cashing a permanent product. It would likely need to receive such approval before beginning the rollout envisioned in this analysis.[84]

2. Pew Charitable Trusts surveyed check cashing users in 2014 and found that 46 percent would be “highly likely” and 34 percent would be “somewhat likely” to cash checks at their local post office if the fees were low. Based on those survey results, we assumed that by the fifth year of the rollout, 50 percent of the “highly likely” category (meaning 23 percent of overall check cashing users) and 10 percent of the “somewhat likely” category (about 3 percent of all users) would actually become postal check cashing customers.[85] For the size of the population of check cashing users, we relied on the *2013 FDIC National Survey of Unbanked and Underbanked Households*.[86] The figures used in years 1 through 4 assume a typical rate of growth for new products.[87] This is not necessarily indicative of the exact rate of growth the Postal Service would see.

3. We assumed that each customer would cash an average of 18.6 checks per year, which was the average among all check cashing users based on our analysis of the Center for Financial Services Innovation’s *Beyond Check Cashing* report.[88]

4. Volume in the chart reflects the number of customers multiplied by the number of checks cashed by each customer.

5. Our assumptions are based on an overall average fee of $5 per check cashed, though the prices would vary depending on the size of each check. We chose this hypothetical fee because it would be affordable compared to many existing check cashing services. This assumption is meant only to demonstrate the potential viability of a check cashing product offered by the Postal Service, and does not necessarily reflect any actual fees the Postal Service might charge. The Postal Service

84 The law limits the revenue the Postal Service is allowed to generate from products under a market test. 39 U.S.C. 3641(e)(2).
85 The Pew Charitable Trusts, *The Post Office and Financial Services*, p.13.
86 FDIC, *2013 FDIC National Survey of Unbanked and Underbanked Households*.
87 QuickMBA, “The Product Life Cycle,” Internet Center for Management and Business Administration, Inc., http://www.quickmba.com/marketing/product/lifecycle/.
88 Center for Financial Services Innovation, *Beyond Check Cashing: An Examination of Consumer Demand and Business Innovation for Immediate Access to Check Funds*, June 2014, http://www.cfsinnovation.com/Document-Library/Beyond-Check-Cashing, p.10.

could decide to increase or decrease these fees to reflect demand and market conditions, and would likely need to conduct studies to identify consumer preferences.

6. Total revenues were calculated by multiplying the volume by the $5 average check cashing fee.

Table 3: Post Office-to-Post Office Money Transfers

	Per Unit	Year 1[1]	Year 2	Year 3	Year 4	Year 5
$50 and under transfer volume[2]		1,363,501	2,727,002	5,454,004	8,181,006	9,408,157
Greater than $50 transfer volume[3]		2,727,002	5,454,004	10,908,008	16,362,012	18,816,314
Total transfers[4]		4,090,503	8,181,006	16,362,012	24,543,018	28,224,471
$50 and under transfer fee[5]	$5	$6,817,505	$13,635,010	$27,270,020	$40,905,030	$47,040,785
Greater than $50 transfer fee[6]	$10	$27,270,020	$54,540,040	$109,080,080	$163,620,120	$188,163,138
TOTAL REVENUES[7]		**$34,087,525**	**$68,175,050**	**$136,350,100**	**$204,525,150**	**$235,203,923**

Notes/Assumptions

1. Because post office-to-post office money transfers would be a new product, the Postal Service would likely have to begin with a market test and seek approval from the PRC to make these transfers a permanent product. It would likely need to receive such approval before beginning the rollout envisioned in this analysis.

2. This reflects the number of transfers of $50 or less, which we assume would account for one-third of the total transactions.

3. This reflects the number of transfers of more than $50, which we assume would account for two-thirds of the total transactions.

4. This is the total number of transfers. We assumed the volume would be comparable to a large market player by year 5, given the Postal Service’s strategic advantages in this space. The figures used in years 1 through 4 assume a typical rate of growth for new products. They are not necessarily indicative of the exact rate of growth the Postal Service would see.

5. We assumed the fee for transfers of $50 or less would be $5. This is a hypothetical fee that would be affordable compared to other providers in the market and does not necessarily reflect the actual fees the Postal Service would charge. The Postal Service would need to study the product demand and market conditions to determine the appropriate pricing. We calculated the figures in this row by taking each year’s number of transfers of $50 or less and multiplying them by $5.

6. We assumed the fee for transfers of greater than $50 would be $10. This is a hypothetical fee that would be affordable compared to other providers in the market, and does not necessarily reflect the actual fees the Postal Service would charge. The Postal Service would need to study the product demand and market conditions to determine the appropriate pricing. For example, it may decide to charge a percentage of the transfer amount for large transactions. We calculated the figures in this row by taking each year’s number of transfers of greater than $50 and multiplying them by $10.

7. Total revenue was calculated by adding the revenue from transfers of less than $50 to the revenue from transfers of more than $50.

   Note: We are assuming the Postal Service would process post office-to-post office transfers internally, keeping transaction costs low. However, the Postal Service would need to develop internal systems to manage transaction processing and compliance. Also, the domestic money transfer market is in significant flux. For example, Western Union dramatically lowered its prices in April of 2015. It is unclear how this might influence the market for this product going forward.

Table 4: International Money Transfers

	Per Unit	Year 1[1]	Year 2	Year 3	Year 4	Year 5
Total transfers in addressable market (millions)[2]		$98,509	$104,811	$111,570	$118,821	$126,603
USPS market share[3]		0.25%	0.5%	1%	2%	3%
USPS transaction amount (millions)[4]		$246	$524	$1,116	$2,376	$3,798
Fee + Foreign Exchange Revenue[5]	4.29%					
TOTAL REVENUES (actual dollars)[6]		**$10,565,089**	**$22,481,926**	**$47,863,349**	**$101,948,323**	**$162,938,553**

Notes/Assumptions

1. The Postal Service may need to get approval from the PRC before executing the changes and expansion envisioned in this analysis.

2. As mentioned earlier, Dinero Seguro currently serves only four of the top 10 destination countries for U.S.-based transfers. Our analysis assumes the Postal Service expands into all of the top 10, meaning six more countries, in addition to the nine Latin American countries where it currently operates. These figures represent the total amount transferred from the United States to those 15 countries. The figures also account for the average growth of remittances to those countries, which explains why the size of the market increases with time. We obtained the numbers from the World Bank's Bilateral Remittance Matrix.[89]

3. This represents the Postal Service's market share of all remittances sent from the United States to the 15 countries where the Postal Service will operate under our hypothetical model. We also assume the Postal Service would make the basic programmatic improvements discussed earlier in the paper.

4. This represents the dollar value of the Postal Service's transactions, calculated by multiplying its market share by the total addressable market.

5. We assume that prices are adjusted to match the industry standards on a country-by-country basis, with average fee and foreign exchange revenue coming to 4.29 percent of the transaction amount. This was calculated using World Bank data.

6. We calculated total revenue by multiplying the Postal Service's transaction amount by 4.29 percent.

89 The Word Bank, *Bilateral Remittance Matrix*, 2014, http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/Bilateral_Remittance_Matrix_2014.xlsx. Note that the World Bank's data on the total remittance market includes the compensation of many millions of employees who are not residents of the country where they work, as well as the compensation of workers employed by non-resident entities. We do not envision the Postal Service participating in these segments of the remittance market. Therefore, its attainable share of the overall remittance market will be relatively low. The World Bank Data Help Desk, *How Do You Define Remittances?* https://datahelpdesk.worldbank.org/knowledgebase/articles/114950-how-do-you-define-remittances.

Table 5: Bill Pay

	Per Unit	Year 1[1]	Year 2	Year 3	Year 4	Year 5
Volume[2]		32,125,070	35,337,577	38,871,335	42,758,468	47,034,315
Standard fee[3]	$2	$51,400,112	$56,540,123	$62,194,136	$68,413,549	$75,254,904
Expedited fee[4]	$5	$32,125,070	$35,337,577	$38,871,335	$42,758,468	$47,034,315
TOTAL REVENUES[5]		**$83,525,182**	**$91,877,700**	**$101,065,470**	**$111,172,017**	**$122,289,219**

Notes/Assumptions

1. Because bill pay would be a new product, the Postal Service would likely have to begin with a market test and seek approval from the PRC to make bill pay a permanent product. It would likely need to receive such approval before beginning the rollout envisioned in this analysis.
2. We assumed that one-third of current postal money order volume would move to bill pay in year 1. Bill pay volume would grow 10 percent per year thereafter.
3. We assumed that standard payments, which typically arrive in 3 business days, would cost $2 and would comprise 80 percent of the transactions. This hypothetical price would be affordable relative to other players in the market. However, it does not necessarily reflect the actual fee the Postal Service would charge. The Postal Service would need to study the product demand and market conditions to determine the appropriate pricing. The calculation takes 80 percent of the volume multiplied by $2.
4. Expedited payments, which typically arrive to the biller within minutes, would cost an average of $5 and would comprise 20 percent of the transactions. This hypothetical price would be affordable relative to other players in the market. However, it does not necessarily reflect the actual fee the Postal Service would charge. The Postal Service would need to study the product demand and market conditions to determine the appropriate pricing. The calculation takes 20 percent of the volume multiplied by $5.
5. Total revenue is the sum of the revenue from standard fees and expedited fees.

Note: Another way to estimate potential revenue would be to use the Pew Charitable Trusts 2014 survey of bill pay users, which found that 46 percent would be "highly likely" and 33 percent would be "somewhat likely" to pay bills at their local post office, if the fees were low.[90] If we assumed that, by the fifth year of the rollout, 50 percent of the "highly likely" (23 percent of all bill pay users) and 10 percent of the "somewhat likely" (about 3 percent of all users) would actually become postal bill pay customers, the Postal Service could have a 26 percent market share. Based on the Center for Financial Services Innovation estimates of the bill pay market size of $700 million, that would equate to $184 million in revenue — which is higher than the $122 million we projected.[91] It should be noted, however, that the highly affordable bill pay service we envision may result in the Postal Service having a lower share of revenue in the market, compared to its share of the transactions. In other words, having 26 percent of the customers would not equate to 26 percent of the revenue if the Postal Service's product were more affordable than that of other providers.

90 The Pew Charitable Trusts, *The Post Office and Financial Services*, p.13.
91 Center for Financial Services Innovation, *2013 Financially Underserved Market Size,* December 2014, http://www.cfsinnovation.com/CMSPages/GetFile.aspx?guid=c032e4aa-039b-4723-8f2d-4fbf7fc0eb19, p. 7.

Table 6: Money Orders

	2013 (actual)	2014 (actual)	Year 3	Year 4	Year 5
Volume[1]	102,507,000	96,963,000	62,965,137	61,705,834	60,471,718
Face Value[2]	$21,440,072,466	$20,955,890,977	$13,691,329,061	$13,417,502,480	$13,149,152,430
TOTAL REVENUES[3]	**$157,263,032**	**$166,405,111**	**$103,008,603**	**$100,948,431**	**$98,929,462**

Notes/Assumptions

1. This represents the number of money orders sold each year. While 2013 and 2014 are actual results, year 3 assumes that one-third of money order volume is eliminated due to the introduction of bill pay. In addition, money orders sales have been declining industry wide. Postal money orders have been falling by about 6 percent per year, but our model assumes the Postal Service could reduce that to a 2 percent decline. This would be due to improved marketing and the complementarity of other alternative financial products that the Postal Service could begin offering, such as check cashing. As those products attract new financial services customers, some of them also will begin buying their money orders from the Postal Service. In addition, money order volume is declining partially because some people are opting to use bill pay instead. If the Postal Service begins offering bill pay, the customers interested in it could migrate en masse to that product. That would mean that the remaining money order users will be much less likely to leave that product. In reality, the decline in money order use may be lower than 2 percent, or could even transition to an increase in usage. However, a detailed study of the postal money order market would be necessary to determine this. Our analysis of money orders does not project a full 5 years into the future because this product is already mature and does not need to be rolled out or expanded the way other products do.

2. This represents the face value of money orders sold each year.

3. The revenue from money orders comes from purchase fees, the rebooking of old money orders that go unused, and interest earned on the balance of outstanding money orders. The actual revenue figures in 2013 and 2014 differ slightly from those in the Postal Services Public Cost and Revenue Analysis. To calculate revenue, we assumed that these three revenue sources continue at current levels, relative to projected volume. Note that there was an increase in old money orders being booked and counted as revenue in 2014, which explains why revenue increased that year despite the decline in the volume of money orders sold.

Table 7: ATMs

	Per Unit	Year 1[1]	Year 2	Year 3	Year 4	Year 5
Units purchased and deployed[2]		2,200	2,200	2,200	2,200	2,200
Total machines[3]		2,200	4,400	6,600	8,800	11,000
Transaction volume[4]	3,948	8,685,600	18,239,760	27,880,776	37,530,478	47,181,048
Cash withdrawal fee[5]	$2					
TOTAL REVENUES[6]		**$17,371,200**	**$36,479,520**	**$55,761,552**	**$75,060,955**	**$94,362,096**

Notes/Assumptions

1. Because postal-owned ATMs would be a new product, the Postal Service would likely have to begin with a market test of limited scope and seek approval from the PRC to make it a permanent service. It would likely need to receive such approval before beginning the rollout envisioned in this analysis.

2. This represents the number of ATMs the Postal Service would purchase each year under our hypothetical model. While we assume it would own the ATMs, the Postal Service would outsource things like maintenance and cash reloading.

3. This represents the total number of ATMs owned by the Postal Service under our hypothetical model. By year 5, it would deploy 11,000 ATMs to high volume locations that likely have enough foot traffic to generate the ATM transactions necessary to cover the overhead costs of each machine. This is based on our estimates of foot traffic at the post office level, data from industry sources on how foot traffic translates into ATM transactions, and industry estimates for the average cost of operating non-bank ATMs. Note that we could only perform full foot traffic analysis on the post offices with advanced point of sale terminals. As such, there are likely many more locations with sufficient foot traffic to warrant ATMs. Based on research from Dove Consulting, this would give the Postal Service about 6 percent of the total number of non-bank ATMs in the country.[92]

4. This represents the projected total number of ATM withdrawals, assuming that each machine completes 3,948 transactions in its first year. This figure is the estimated average annual volume for non-bank ATMs, according to an ATM study by Dove Consulting.[93] We also assume that ATM volume would grow 10 percent each year due to increased public awareness of ATMs in post offices.

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92 Dove Consulting, prepared for Co-Op Financial Services, *2006 ATM Deployer Study: The Stratification of the ATM Industry,* September 2006, http://www.co-opfs.org/public/press/med_press_releases.cfm?recordid=577, p. 10.
93 Ibid., p. 25.

5. We assume an average withdrawal fee of $2. While the Postal Service could consider making its ATMs part of a surcharge-free network where recipients of public assistance can withdraw their benefits for free, those surcharge-free transactions would likely represent a small portion of overall withdrawals.

6. Total revenue was calculated by multiplying the transaction volume by the cash withdrawal fee.

   Note: While this analysis assumes each ATM generates the average volume for non-bank ATMs, another way to estimate volume is with foot traffic. ATM industry sources indicate that 3 to 5 percent of people who see an ATM will use it.[94] Using those figures, the 11,000 high-traffic post offices included in this analysis would generate, on average, more than double the transaction volume of the average non-bank ATM location, based on the OIG's foot traffic estimates. However, for this analysis we chose to use the more conservative average ATM volume estimates.

94 ATM Experts, "ATM Machine Buyers Guide and Purchasing Advice," http://www.atmexperts.com/atm_machine_buyers_guide.html, and First Pay Solutions LLC, "FAQ-ATM," http://gofirstpay.com/faq_atm.html.

Table 8: Open-and-Closed-Loop Gift Cards[1]

	Year 1[1]	Year 2	Year 3	Year 4	Year 5
Number of locations selling gift cards[2]	5,000	10,000	10,000	12,000	15,000
TOTAL REVENUES[3]	**$3,845,748**	**$9,380,912**	**$14,062,805**	**$19,587,267**	**$26,075,994**

Notes/Assumptions

1. Open-loop gift cards are non-reloadable stored value cards with a credit card system logo on them. An American Express open-loop gift card, for example, can be used almost anywhere American Express cards are accepted. Closed-loop gift cards are stored value cards that must be redeemed at a specific merchant, such as Target or Starbucks. The Postal Service currently offers both types.

2. This reflects the number of post offices that would sell either open-loop or closed-loop gift cards. In our analysis, the number of locations selling closed-loop cards would exceed the number of locations selling open-loop cards by year 4.

3. To calculate the total revenue from gift card sales, we summed the estimates for open-and-closed-loop gift card revenue. We did this because of concerns about potentially commercially sensitive actual sales data that were included in our analysis.

Appendix C: The Rise of Mobile Payments

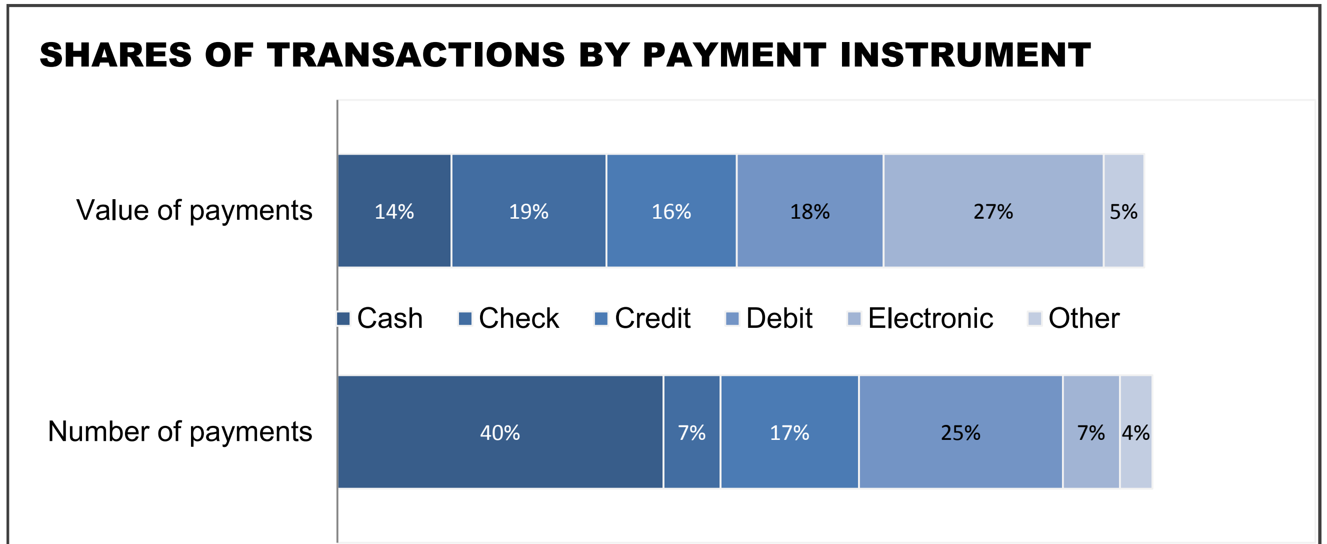
This appendix highlights current trends and innovations in payments in the United States, including mobile payments. Developments in the payments space could have far-reaching implications for how the underserved access financial services to manage their daily lives. Given that payment services account for the bulk of the potential postal financial product expansions, the Postal Service should keep an eye on innovations in the payments space.

Consumer Payment Trends in the United States

The landscape for consumer payments in the United States is in the middle of a major transformation. The use of cash and checks has gradually been displaced by other payment methods (such as credit cards, debit cards, and electronic transfers). In the future, alternative tools such as mobile payments, apps, and Internet-based payments (e.g. PayPal) will increasingly become consumers' preferred means of transferring money, especially among Millennials.[95]

Despite the rise of other payment methods, cash is still the most frequently used means of making a payment in the United States, accounting for 40 percent of all transactions. However, in terms of the value of the payments, rather than the quantity, cash falls behind electronic transfers, debit cards, credit cards, and checks. (See Figure 7 below.)[96] Cash is the most commonly used tool for low-dollar value transactions and person-to-person payments.[97] Cash is often preferred by young and low-income consumers, who have more limited access to banking services.[98]

Figure 7: Transactions by Type of Payment



Source: OIG graphic based on Federal Reserve Bank of San Francisco data, 2014.

Although cash will remain the payment method of choice for many consumers, a recent survey found that its use as a frequent payment tool is likely to decline. In addition, the survey found that fewer people expect to use debit card and credit cards for their

95 Accenture, *2014 North America Consumer Payments Survey*, http://www.accenture.com/SiteCollectionDocuments/accenture-2014-north-america-consumer-payments-survey.pdf, pp. 3, 7.
96 Barbara Bennett, Douglas Conover, Shaun O'Brien, and Ross Advincula, *Cash Continues to Play a Key Role in Consumer Spending: Evidence from the Diary of Consumer Payment Choice*, Federal Reserve Bank of San Francisco, April 29, 2014, http://www.frbsf.org/cash/files/FedNotes_Evidence_from_DCPC.pdf, pp. 2-3.
97 Ibid., pp. 2-4.
98 Ibid., pp. 8-10.

frequent payment needs in the future. New types of digital payments, however, are expected to become increasingly popular.[99] It appears that mobile payments will be a major part of that emerging trend.

The Emergence of Mobile Payments

Mobile payments are transfers of money conducted through applications downloaded on mobile devices, microchips for contactless payments installed on phones, scannable images, or text messages. Mobile payments are usually initiated by digital wallets, which are a software application technology typically loaded onto a mobile device that stores payment information either on the device itself or on the provider's cloud server. The software then transmits the transaction data at the time of payment, often in an encrypted format.[100]

Mobile payments may be a way to enhance financial inclusion and participation in the digital economy for the underserved, especially given that the vast majority of underserved consumers have mobile phones.[101] Integrating cash into mobile payments can provide a way for the unbanked to transfer money, make payments, and participate in e-commerce. Providers in other countries are already successfully implementing such models. For example, M-Pesa, with over 17 million users in Kenya as of 2013, allows users to load cash to their mobile phone-based accounts at participating retail locations, which are often small corner stores. They are not required to have a bank account or a payment card.[102]

Mobile Technologies Are Revolutionizing In-Store Payments

Innovative services like Google Wallet and Apple Pay use apps on mobile devices to initiate in-store "proximity payments" without the need for a physical card. Consumers do not need to sign anything or type in a PIN. They just hold their phone near a terminal, which makes the checkout experience faster. These services also boost the security of transactions because they use encryption to transfer payment data and do not share consumers' information with merchants.[103] There are several different types of proximity payments, two of the most popular being near field communication (NFC) and image- or QR code-based payments.[104]

Near field communication — NFC allows for the transfer of data over short distances wirelessly and without contact, just by waiving one's phone over a contactless payment terminal. Currently, fewer than 10 percent of merchants are able to accept NFC payments. Even with the release of high-profile services like Apple Pay, some merchants have been reluctant to install NFC-compatible terminals due to merchant fees that can be higher than fees associated with accepting debit cards or credit cards, as well as a perception that few customers use NFC to pay for things. Other merchants that had installed such terminals later deactivated them due to the high fees behind NFC.[105] One advantage of NFC is that it allows users to make purchases at multiple merchants with only a single app. However, the apps generally still require users to have a credit or debit card, as the user's account information is stored on the mobile device.[106]

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99 Accenture, *2014 North America Consumer Payments Survey*, p. 5.
100 Margaret Rouse, "M-payment (mobile payment) definition," *TechTarget*, http://searchmobilecomputing.techtarget.com/definition/m-payment.
101 Board of Governors of the Federal Reserve System, *Consumers and Mobile Financial Services 2013*, March 2013, http://www.federalreserve.gov/econresdata/consumers-and-mobile-financial-services-report-201303.pdf, pp. 4-5.
102 "Why does Kenya lead the world in mobile money?," *The Economist*, May 27, 2013, http://www.economist.com/blogs/economist-explains/2013/05/economist-explains-18, and Claire Alexandre, "10 Things You Thought You Knew about M-PESA," The Consultative Group to Assist the Poor, November 22, 2010, http://www.cgap.org/blog/10-things-you-thought-you-knew-about-m-pesa.
103 Bryan Yeager, "US Mobile Payments 2014: Updated Forecast and Key Trends Driving Growth," *eMarketer*, October 2014, p. 6.
104 Merchant Warehouse, "Comparing QR Codes vs NFC in the Battle for Your Mobile Wallet," October 7, 2013, http://merchantwarehouse.com/comparing-qr-codes-vs-nfc-in-battle-for-your-mobile-wallet.
105 Daisuke Wakabayashi and Greg Bensinger, "Will Stores Warm Up to Apple Pay?," *Wall Street Journal*, September 10, 2014, http://www.wsj.com/articles/will-stores-warm-up-to-apple-pay-1410392952.
106 For example, see FAQs for Google and Apple's NFC mobile wallet apps: https://www.google.com/wallet/faq.html#tab=faq-payments and https://support.apple.com/en-us/HT201469.

Executive Summary

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Image- or QR code-based payments — Some retailers are using or developing technology with scannable images or QR codes to develop their stores' mobile payment apps. Similar to NFC, these apps also require users to store their credit card, debit card, PayPal account, or bank account information on their mobile device.[107] This approach allows retailers to leverage a technology they already use (barcodes), thereby avoiding the costs of switching to other technologies like NFC. The downside of this approach is that it creates closed-loop payment systems that can only be used at specific merchants. However, a group of major retailers — including Walmart, Best Buy, Gap, Target, CVS, and dozens of others — have formed the Merchant Customer Exchange (MCX) coalition to provide a single app called CurrentC that consumers can use across multiple retailers, so they do not need to enter the same payment information repeatedly on numerous apps. There is speculation that CurrentC will help these retailers to avoid fees charged by credit card networks for some transactions.[108]

Peer-to-Peer (P2P) Mobile Payments

P2P mobile payments are money transfers between individuals through text messages, a mobile app, or other similar means. Solutions such as Venmo (owned by eBay) and, more recently, Snapcash (offered by Snapchat through a partnership with Square), and Facebook Messenger allow users to open an account with their bank account debit card and send money to other app users almost instantaneously.[109] Venmo offers a feature that allows users to split bills, make payments, and share brief messages about their experiences, which adds a social element to the act of making payments.[110] For example, users can split a restaurant bill and then tell their friends about the meal at the same time.

P2P mobile payments are not just popular with startup tech companies. Some banks have also entered the P2P mobile payment space. For example, many banks participate in Popmoney, a solution for transferring money from bank account to bank account in 1 to 3 days for a small fee.[111] Although many P2P mobile payment systems require users to have a payment card or a bank account, some allow users to load cash onto their account for making payments later. As mentioned above, Kenya's M-Pesa is a successful example of this type of system. A wide network of retailers provide M-Pesa customers with locations to add money to their mobile wallets with cash, which can then be used for P2P payments.

Growth of the Mobile Payments Market

Although mobile payment technology overall is relatively new, it is rapidly growing. The transaction value of mobile payments in the United States more than doubled from 2013 to 2014, from $1.59 billion to $3.5 billion, and some experts predict it will rise as high as $118 billion in 2018.[112] P2P mobile payments are only a segment of the overall market, but could grow to $17 billion alone by

107 Different apps allow different types of payment methods for loading money onto these types of digital wallets. For example, the Starbucks app can be topped up with a debit or credit card, PayPal, or Starbucks gift card. See Erik Olson, "Payment Technology: Credit or Debit? Just Take My Money Already," *Inside Business*, February 28, 2014, http://insidebiz.com/news/payment-technology-credit-or-debit-just-take-my-money-already.

108 Will Hernandez, "MCX wants to be the world's most accepted mobile wallet," *Mobile Payments Today*, May 20, 2014, http://www.mobilepaymentstoday.com/articles/mcx-wants-to-be-the-worlds-most-accepted-mobile-wallet/; Steve Kovach, "Retailers Like Wal-Mart Have Started A War Against Apple That They Have No Chance Of Winning," *Business Insider*, October 28, 2014, http://www.businessinsider.com/merchant-customer-exchange-blocking-apple-pay-2014-10; and Rurik Bradbury, "Here's Why Apple Pay Might Lose To The Retailers," *Business Insider*, November 3, 2014, http://www.businessinsider.com/heres-why-currentc-might-actually-defeat-apple-pay-2014-10.

109 Venmo, "About," https://venmo.com/about/product/; Snapchat, "Support," https://support.snapchat.com/ca/snapcash; and Facebook, "Send Money to Friends in Messenger," news release, March 17, 2015, http://newsroom.fb.com/news/2015/03/send-money-to-friends-in-messenger/.

110 Natalie Robehmed, "Venmo: The Future Of Payments For You And Your Company," *Forbes*, July 2, 2013, http://www.forbes.com/sites/natalierobehmed/2013/07/02/venmo-the-future-of-payments-for-you-and-your-company/, and Eric Levenson, "Why the Venmo Newsfeed Is the Best Social Network Nobody's Talking About," *Atlantic Wire*, April 29, 2014, http://www.thewire.com/culture/2014/04/why-the-venmo-newsfeed-is-the-best-social-network-nobodys-talking-about/361342/.

111 Popmoney users can send and receive payments using a mobile device as well as through desktop computers, tablets, or other devices with web browsing capabilities. For more information, please see Popmoney, "How It Works," https://www.popmoney.com/how-it-works.html#send_money.

112 "Consumers Bullish on a Mobile Payments Future," *eMarketer*, October 9, 2014, http://www.emarketer.com/Article/Consumers-Bullish-on-Mobile-Payments-Future/1011265.

the end of 2019.[113] Several factors will drive this growth in mobile payments, including technology innovation from new players in the payments market and shifts in consumer expectations.

Innovation in the mobile payments space is coming mostly from non-traditional financial services providers such as mobile operators, retailers (both online and offline), startups, and technology companies. These new providers enter the market by leveraging one or more specific competitive advantages. For example, wireless service providers like T-Mobile already provide both billing and mobile services to their customers. Technology companies like Apple have control over their app markets. Retailers like Starbucks, Walmart, and Target can rely on a large existing customer base to spread the adoption of their payment apps and can combine marketing offers and payments.[114]

Further adoption of mobile payments will depend on the ability of providers to not only communicate the advantages of mobile payments, but also to improve the overall experience by meeting users' demand for convenience, security, and value-added services like coupons and loyalty points.[115] Consumers also expect payment processes to be seamless and friction free, and for their payment information to be securely stored rather than shared with merchants.[116] Changing demographics also play a role in shifting consumer expectations. According to a recent survey, Millennials are more likely to embrace mobile payments than other users.[117]

113 A full third of the P2P mobile payments market could be international remittances. For more information, please see "The cheque is in the tweet," *The Economist*, November 20, 2014, http://www.economist.com/news/finance-and-economics/21633884-sending-and-receiving-money-your-smartphone-getting-easier-cheque.
114 SWIFT, *Mobile Payments: Three Winning Strategies for Banks*, 2012, http://www.swift.com/resources/documents/SWIFT_white_paper_Mobile_Payments.pdf.
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116 Accenture, *Everyday Payments: How Digital Is Revolutionizing Payments in the Everyday Bank Ecosystem*, 2014, http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-Everyday-Payments.pdf, p. 10.
117 Accenture, *2014 North America Consumer Payments Survey*, p. 14.

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