

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

REVIEW OF NONPOSTAL SERVICES

Docket No. MC2008-1

STATEMENT OF PRANAB M. SHAH
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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12 Exhibit A: Letter from Dr. Lakshmi-Ratan, Chief Operating Officer, Direct

13 Marketing Association to Paul Vogel, Senior Vice President, Global

14 Business, USPS

3 **I. Autobiographical Sketch**

4 My name is Pranab M. Shah, I am the Executive Director of Global
5 Business Strategy and Technology at United States Postal Service headquarters.
6 My office has responsibility for development of new strategies and technologies
7 for the Postal Service's international products.

8 I have been with the Postal Service in my current title and role since 2006,
9 after having served as the Postal Service's Manager of Network Operations
10 Development since early in 2001. In that position, I was responsible for the
11 development of new strategies and concepts for postal mail processing and
12 transportation networks, including information technology systems and solutions
13 for supporting the day-to-day operations of these networks. I was charged with
14 redefining the Postal network and establishing such critical programs as
15 Evolutionary Network Development, Surface Visibility, TOPS (Transportation,
16 Optimization, Planning and Scheduling and FAST (Facility Access and Shipment
17 Tracking).

18 Prior to joining the Postal Service, I was a senior executive in the private
19 sector, with 10 years of international experience managing complex operations
20 and information technology programs. I have management consulting
21 experience in the areas of business strategy, supply chain management, and
22 emerging technologies across a wide array of industries including retail,
23 manufacturing, high-tech, and health care.

24 I have a Bachelor of Science Degree in Industrial and Systems
25 Engineering from Maharaja Sayajirao University, India; and a Masters in

- 3 Business Administration from Cardiff Business School, University of Wales,
- 4 United Kingdom.

3 **II. Purpose of Sworn Statement**

4 The purpose of this statement is to provide an overview of the Postal
5 Service's electronic International Money Transfer Service (IMTS) program in
6 support of its inclusion in the Mail Classification Schedule (MCS) as a
7 competitive postal service. This testimony also demonstrates how the electronic
8 IMTS service promotes the public interest.

9 **III. History of USPS Electronic IMTS Program**

10 The Postal Service commenced issuance of domestic money orders in 1864
11 and introduced international money orders in 1869.¹ Today, Postal Service
12 customers can purchase hardcopy international money orders valued at up to a
13 maximum of \$700 that can be cashed in 30 countries, as well as electronic IMTS
14 under the Dinero Seguro product name, as discussed below.²

15 Until 2002, the Postal Service offered "list money orders." List money
16 orders did not transfer money through a bearer instrument or through the use of
17 Postal Service forms. In a somewhat similar process to electronic IMTS, a
18 destination foreign postal administration would pay out funds to recipients upon
19 receipt of an electronic notice from the Postal Service Accounting Center in St.
20 Louis, Missouri that the Postal Service had received the funds from a U.S. based
21 customer. Clearance of such funds would either entail an offset of funds owed

¹ The history of the United States Postal Service, p. 72, available online at:
<http://www.usps.com/cpim/ftp/pubs/pub100.pdf>.

² Countries accepting direct International Money Orders include: Albania, Anguilla, Antigua and Barbuda, Bahamas, Barbados, Belize, Bolivia, British Virgin Islands, Canada, Cape Verde, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guinea, Guyana, Honduras, Jamaica, Japan, Mali, Mexico, Montserrat, Peru, St. Christopher (St. Kitts) and Nevis, St. Lucia, St. Vincent and the Grenadines, Sierra Leone, as well as Trinidad and Tobago. Available online at: <http://www.usps.com/money/sendingmoney/sendmoneyinternationally.htm>

3 based on each post's obligations to the other, the issuance of a check to an
4 allocated post, or through electronic payment to an post through a system known
5 as Worldlink.³ The Postal Service suspended the use of list money orders in
6 2002 after a phase out period following the Universal Postal Union (UPU) Beijing
7 Congress in 1999.⁴

8 In April of 1997, the Postal Service initiated its Dinero Seguro service for
9 electronic money transfers to Latin America. The current program is performed
10 under an agreement with Bancomer Transfer Service ("Bancomer"), a private
11 entity that has partnered with various institutions allowing for payout of Postal
12 Service outbound money transfers to customers in Latin America. Dinero Seguro
13 service is offered in selected target markets based on demographic trends and
14 immigrant migration patterns. Dinero Seguro serves ten Latin American
15 countries.⁵

16 At the UPU's Bucharest Congress in 2004, the United States was a
17 signatory to the latest Postal Payment Services Agreement (PPSA). Through the
18 PPSA, the UPU membership has taken steps to enhance the International
19 Financial System (IFS) platform⁶ in an attempt to increase the number of posts
20 migrating from paper money orders to an electronic money order system. In

³ Accounting Service Center Accounting Guidelines, USPS Handbook F-20A.

⁴ UPU, Manual of the Postal Payment Services, commentary § 2.1.

⁵ Countries participating in Dinero Seguro include: Argentina, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Peru. Available online at: <http://blue.usps.gov/marketing/retail/suremoney/welcome.htm>

⁶ The UPU has developed IFS (International Financial System), which provides full functions for the electronic processing and transmission of international money orders, including accounting and settlement procedures, as defined in the PPSA. Information on IFS is available at www.ptc.upu.int.

3 2004, twenty-nine countries were connected to the UPU's IFS system.⁷ By the
4 end of 2007, thirty-one member posts had connected. The Postal Service has
5 taken an active role in the UPU's financial services development initiative with
6 the objective of migrating a portion or all of the Postal Service's paper money
7 order services to electronic money transfer services between posts either
8 through IFS or the privately held Eurogiro system developed cooperatively by a
9 number of foreign posts.⁸

10 **IV. Electronic IMTS Complements USPS Offerings**

11 The provision of IMTS complements USPS offerings, benefits from
12 existing core competencies, and fits within the existing product portfolio. With
13 more than 140 years of experience offering domestic and international money
14 orders as well as the electronic money transfer products such as the
15 aforementioned list money orders, paper money orders, and Dinero Seguro
16 initiatives, the Postal Service has gained in-house operational expertise as well
17 as regulatory compliance associated with money transfers. The Postal Service's
18 retail architecture contains the necessary and already existing network
19 infrastructure to provide electronic IMTS. In addition, Postal Service retail
20 associates have been trained to provide IMTS, both electronically and through
21 hardcopy transactions. With its significant nation-wide presence, the existing
22 product portfolio enables the Postal Service to provide needed services to

⁷ UPU, Postal Operations Council, Doc 16b Annex 2 (January 15, 2008).

⁸ Eurogiro is utilized by many posts as well as private companies. Its major shareholders are postal operators. See <http://siteresources.worldbank.org/INTPAYMENTREMITTANCE/Resources/HenrikParl.pdf> (describing post ownership of Eurogiro); See also <http://www.ibspublishing.com/index.cfm?section=features&action=view&id=11269> (explaining the basis for the various world posts' establishment of Eurogiro).

3 customers that are presently underserved by the traditional banking industry. For
4 instance, we have offered the sale of Dinero Seguro service at select locations
5 where immigrant populations are likely to reside. In light of the Postal Service's
6 relationship with other posts and the membership of UPU, the Postal Service has
7 the ability to expand electronic IMTS with payout agents at postal outlets
8 throughout the world.

9 The Postal Service's provision of electronic IMTS can contribute signifi-
10 cantly to global economic and social development, which in turn has the
11 capability of contributing to improvements in worldwide living standards. Through
12 electronic IMTS, the Postal Service provides enhanced access and options for
13 citizens throughout the world to remit funds safely, conveniently, and efficiently
14 through the wide reach of the global postal infrastructure. The UPU's
15 development of the IFS system and its encouragement of greater participation
16 among postal operators serve the objective of providing citizens of the world
17 access to efficient, reliable, secure and affordable electronic payment services.⁹

18 Finally, electronic IMTS promotes mailing activities. Inbound electronic
19 money transfers could be structured to be paid out in traditional domestic paper
20 money orders, which could, in turn, be mailed by customers. In addition,
21 electronic IMTS facilitates transactions between customers and businesses, and
22 such purchased items can be sent by traditional mail services to the payor. As
23 indicated in Exhibit A, the Direct Marketing Association has expressed support
24 for posts offering electronic IMTS under the IFS platform. DMA notes that

⁹ Closing address by Edouard Dayan, Director General of the UPU, Dubai Strategy Conference
Nov. 16, 2006. Available online at:
http://www.upu.int/upu_strategy/2006_sc/en/09_speech_edouard_dayan_en.pdf.

3 existing cross-border payment services are inadequate. Such a service thus
4 could offer customers an economically efficient means to pay vendors, and
5 thereby promote commerce by increasing both increased parcel volume as well
6 as subsequent follow-up solicitations.¹⁰

7 **V. Current Initiative to Expand Electronic IMTS**

8 In light of the benefits of electronic IMTS as well as the advances in the
9 UPU's infrastructure since the Bucharest Congress, the Postal Service has
10 commenced discussions with foreign postal operators to expand IMTS
11 exchanges. In addition, the Postal Service has been active in shaping the future
12 of electronic IMTS through preliminary discussions leading up to the 24th
13 Universal Postal Union Congress with the intention of expanding money transfer
14 services through the IFS platform, and possibly private sector payout agents in
15 some markets where a foreign postal operator is unwilling or incapable of
16 satisfying regulatory requirements for safely exchanging money electronically.
17 The Postal Service also intends to pursue electronic IMTS with other operators
18 designated by other signatories to the PPSA.

19 Today, technological advances in electronic transfers offer a similar move
20 toward a more secure product. Some foreign posts have expressed the desire to
21 replace the paper money order completely in order to combat terrorist financing
22 and money laundering schemes.¹¹

¹⁰ Letter from Dr. Ramnath A. Lakshmi-Ratan, Executive Vice President and Chief Operating Officer, Direct Marketing Association, to Paul Vogel, Senior Vice President, Global Business, June 13, 2008.

3 The posts are niche players in the market of providing electronic IMTS
4 services. The Postal Service's Dinero Seguro product maintains a small share of
5 the total electronic IMTS market for transactions to Latin American countries. In
6 light of the potential for growth in the market, the Postal Service has commenced
7 discussions with posts in rapidly expanding markets. With growth outside of this
8 hemisphere and to large markets not served by Bancomer in Latin America, the
9 Postal Service intends to capitalize on its experience with the Dinero Seguro
10 product primarily under the umbrella of the UPU's electronic IMTS initiatives.

11 In the United States, electronic IMTS also serves an important public need
12 through its provision of services to populations underserved by existing money
13 transfer and traditional banking services. One observer suggests that immigrant
14 populations, low wage earners, and minorities in the United States constitute the
15 majority of persons who do not have banking relationships.¹² A Federal Reserve
16 Board survey of consumer finances notes that as of 2001, nearly ten percent of
17 families in the United States did not have transaction accounts and that more
18 than twelve percent lacked checking accounts.¹³ One possible reason for this is
19 that such consumers perceive that they do not have enough money to make
20 having traditional bank accounts useful.¹⁴ In light of this, financial institutions
21 tend to serve a relatively small share of the remittance market.¹⁵ Accordingly,

¹² John M. Floyd, Marketing to the Unbanked Population, available online at:
http://www.bankersonline.com/vendor_guru/jmf/jmf_mktg043007.html.

¹³ Federal Deposit Insurance Corporation, Financial Education in a Dynamic Banking
Environment, available online at: <http://www.fdic.gov/bank/analytical/fyi/2003/110503fyi.html>.

¹⁴ Center For Financial Services Innovation, Underbanked Consumer Overview & Market
Segments Fact Sheet, June 8, 2008, available online at: http://www.cfsinnovation.com/research-paper-detail.php?article_id=330366.

¹⁵ Dr. Manuel Orozco, Institute for the Study of International Migration, Pew Hispanic Center
Report, The Remittance Marketplace: Prices, Policy and Financial Institutions at 2-3.

3 non-bank providers such as the Postal Service can serve an important role in this
4 niche market. Although certainly there are alternatives to the Postal Service in
5 this market, not all services are alike. Some non-banking outlets have been
6 criticized for their high transaction costs, as well as their unreliability.¹⁶
7 Accordingly, and in light of this public need for affordable and trusted electronic
8 IMTS, the Postal Service's continued role in this marketplace is not only
9 warranted, but provides a useful public service.

10 VI. Conclusion

11 For the aforementioned reasons, the Postal Service submits that the
12 electronic IMTS program and its planned expansion can be fairly classified as a
13 viable, competitive postal service.

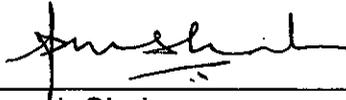
14 The Postal Service has a long history of providing remittance services to its
15 customers, which commenced with money order services in the mid-nineteenth
16 century and was further developed over time with a variety of electronic money
17 transfer options. Provision of electronic IMTS complements Postal Service
18 products and is integrated as part of this organization's existing portfolio of
19 services. With this record of experience as well as an existing infrastructure that
20 can support electronic IMTS, the Postal Service can contribute significantly to
21 global economic and social development. Electronic IMTS also promotes
22 increased mailing through the potential direct mailing of paper money orders as
23 well as through increases in shipping fostered by commercial transactions made
24 possible through electronic IMTS. In addition, offering electronic IMTS offers

¹⁶ Id. at 4-8 (noting that many money transfer services are performed by informal and unlicensed entities).

- 3 Postal Service customers in underserved markets access to efficient, reliable,
- 4 secure and affordable electronic payment services.

Declaration of Pranab Shah

I, Pranab Shah, declare under penalty of perjury under the laws of the United States that the foregoing is true and accurate to the best of my knowledge, information, and belief.

A handwritten signature in black ink, appearing to read "Pranab Shah", written over a horizontal line.

Pranab Shah
Executive Director
Global Business Strategy and Technology
United States Postal Service



The Power of Direct
Relevance. Responsibility. Results.

Dr. Ramnath A. Lakshmi-Ratan (Ramesh Ratan)
Executive Vice President &
Chief Operating Officer

June 13, 2008

Mr. Paul Vogel
Senior Vice President, Global Business
US Postal Service
475 L'Enfant Plaza SW (Room 4016)
Washington, DC 20260-4016

Dear Mr. Vogel:

The Direct Marketing Association, Inc. is pleased to write in support of the initiatives of the US Postal Service proposed to be undertaken at the Universal Postal Union in exploring ways to offer electronic money transfer services to postal customers worldwide.

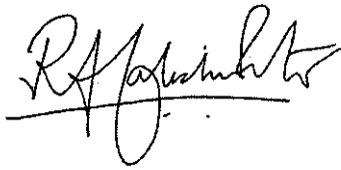
In our experience, a robust global network of electronic money transfer services would be of extraordinary benefit in helping our members increase sales to consumers and businesses abroad, and would generate both promotional and transaction mail and parcels. Currently available cross-border payment services are inadequate for the needs of business in carrying out transactions in many countries, both developed and developing. This is especially, but not exclusively, true in countries where the commercial banking and credit services have not extended to a broader population base.

The ability to find more customers and to sell more to those customers, businesses and consumers, is dependent on those customers having access to an economically efficient way to pay their vendors, among other things. With that piece of the puzzle solved, it is our view that the fulfillment part of the transaction of real goods would flow through the postal system and as satisfied customers are developed, increasing volumes of transactional and promotional mail would follow.

We have for many years been of the view that the provision of electronic money transfer systems will empower and enable smaller businesses to expand their businesses globally at price points which do not make it efficient to use international wire money transfers through commercial banks. In addition, we are absolutely convinced that in previously un-banked economies, the provision of this service will enable small businesses to expand their operations and reach within their own developing economies.

The DMA, through its leadership of the Consultative Committee and the Direct Mail Advisory Board, has for some years now been active in support and promotion of the UPU's expansion of its International Financial Services project, and we will continue to be active for the reasons set out above. We salute the leadership of the US Postal Service in its decision to support this development and hope to be able to participate by linking to, or joining, the service.

Very truly yours,

A handwritten signature in black ink, appearing to read "R. J. Alverno". The signature is written in a cursive style with a horizontal line underneath the name.

Cc: Anthony Alverno, Chief Counsel, US Postal Service Law Department
Jerry Cerasale, SVP Government Affairs, Direct Marketing Association, Inc.
Charles Prescott, VP, Global Knowledge Network Services, Direct Marketing Association, Inc.