

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

ANNUAL COMPLIANCE REVIEW, 2021

Docket No. ACR2021

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-2 OF COMMISSION INFORMATION REQUEST NO. 1

The United States Postal Service hereby provides its responses to the above-listed questions of Commission Information Request No. 1, issued on January 7, 2022. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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**RESPONSES OF THE UNITED STATES POSTAL SERVICE
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1. The Postal Service recently initiated a pilot program to expand consumer financial services by allowing postal retail customers to cash payroll and business checks in exchange for stored value gift cards (Pilot Program).¹
 - a. Please identify the date(s) on which the Pilot Program was initiated, and in which locations it was implemented.
 - b. Please identify and provide any market research or outreach the Postal Service conducted prior to implementing the Pilot Program that demonstrates a customer need or existing customer demand for the exchange of payroll or business checks for single-use gift cards.
 - c. Please discuss the Postal Service's rationale to commence the Pilot Program without Commission review, especially in light of the statement attributed to a Postal Service spokesperson that ties the Pilot Program to "[o]ffering new products and services that are affordable, convenient and secure aligns with the Postal Service's Delivering for America 10-year plan...." See Heckman n.2, *supra* (emphasis added).
 - d. Please confirm the fee charged for purchasing a single-use gift card is \$5.90, independent of the value of the gift card purchased.
 - e. Please confirm the maximum accepted payment for a gift card by business or payroll check, including any fees for said gift card, is \$500. If not confirmed, please explain.
 - f. Please confirm that the only payment methods accepted by the Postal Service for the gift cards in the Pilot Program are payroll and business checks and not personal checks. Additionally, please identify the criteria the Postal Service uses to classify a check as a "business check."
 - g. Please explain whether the payroll or business check must be used in its entirety in payment for one or more gift cards totaling \$500 less the number of \$5.90 fees.
 - h. Please identify any limit the Postal Service places on the frequency of transactions for single-use gift cards purchased as part of the Pilot Program, and how the Postal Service enforces those limits. For example, is a single customer able to purchase multiple gift cards with separate checks as part of separate transactions?

¹ See Jory Heckman, *USPS pilot expands postal banking services after years of skepticism*, Federal News Network (October 4, 2021), available at <https://federalnewsnetwork.com/agency-oversight/2021/10/usps-pilot-expands-postal-banking-services-after-years-of-skepticism/>.

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- i. Please explain whether the Postal Service is able to track gift card purchases made by payroll or business check across locations or shifts. If so, how?
- j. Please confirm that the Postal Service will not exchange any portion of a business or payroll check for cash, *e.g.*, in instances where the value of the check is greater than the value of the gift card(s) and applicable fee(s).
- k. Please explain whether the single-use gift cards are returnable, and if so, how the Postal Service refunds a transaction paid by a payroll or business check.
- l. Please explain how the Postal Service intends to evaluate the success or failure of the Pilot Program, providing specific metrics or criteria if applicable.
- m. Please identify any plans for expanding the Pilot Program (either to new locations or other payment methods) in the next fiscal year, if applicable. Alternatively, please describe in detail any plans for termination of the Pilot Program, if applicable.
- n. Please provide the total cost, revenue, and volume data for the Greeting Cards, Gift Cards, and Stationary products sold as part of the Pilot Program disaggregated by gift card amount and payment method as of the date of this request.
- o. Please explain the types of training, if any, the Postal Service expects that mail clerks will need in order to provide financial services, including how to identify potentially fraudulent payroll or business checks. Please include a description of any existing training for mail clerks that may be applicable to the provision of financial services.
- p. Please describe any training or guidance materials provided to Postal Service employees at the Pilot Program locations.
- q. Please explain the types of safeguards, if any, the Postal Service has in place in order to confirm the validity of payroll and business checks, *e.g.* the use of external companies that provide immediate, electronic guidance on check validity.

RESPONSE:

- a. The pilot program was initiated on September 13, 2021 at four post office retail locations:

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- Baychester Post Office, 1525 E Gun Hill Road, Bronx, NY 10469
- Bailey Crossroads Post Office, 6021 Leesburg Pike, Falls Church, VA 22041
- National Capital (Dorthey Height) Post Office, 2 Massachusetts Ave NE, Washington DC 20002
- Baltimore Post Office, 900 E Fayette Street, Baltimore, MD 21233

b. Representatives from a major postal union identified this as an initiative that could potentially be useful for a segment of consumers, and the Postal Service agreed to the pilot to be responsive to that request of a key stakeholder. The pilot will help determine operational capability and also whether this initiative provides a benefit to the communities involved.

In terms of market research, in April 2021 the Postal Service conducted a survey (USPS AYTM Survey) to gain initial insights into this market. Additionally, we considered other secondary research, including a survey conducted by the Federal Deposit Insurance Corporation (FDIC 2019 Survey: How America Banks: Household Use of Banking and Financial Services). The Postal Service also reviewed some previous OIG reports, to the limited extent that those reports discussed the potential usefulness of expanding the ability of customers to cash checks at retail locations. (OIG RARC Report 2015: The Road Ahead for Postal Service Financial Services and USPS Alternative Financial Services Market Analysis 2021; and OIG White Paper, 2014 Providing Non Bank Financial Services for the Underserved.) Materials relating to this research are provided under seal as part of USPS-FY21-NP32.

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- c. Postal Regulatory Commission review was considered unnecessary because the gift card product was approved in 2014 under the competitive product category of Postal Services. The current pilot is merely testing a new form of payment for an established postal product – gift cards. This did not require a change to the Mail Classification Schedule. The pilot is, moreover, simply a time-limited test that is limited in geographic scope.
- d. Not confirmed. The customer is charged a fee of \$5.95 for a variable gift card up to \$500.
- e. Confirmed. The total amount loaded on the gift card must not exceed \$500 per day per customer.
- f. Not confirmed. Customers can use cash, debit cards, Postal Money Orders, and traveler's checks to purchase Gift Cards. In the pilot locations, the additional forms of payment accepted are payroll or business checks made payable to the customer. A business check is defined as a printed check with company's name pre-printed on it that is made out to the customer.
- g. Yes, the payroll or business check must be used in its entirety in payment for one or more gift cards totaling \$500. Any amount can be placed on a variable gift card up to \$500 for a fee of \$5.95.

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- h. The total amount loaded on the gift card must not exceed \$500 per day per customer. Multiple gift cards can be purchased as long as the customer pays the \$5.95 fee for each gift card, and the total does not exceed \$500 per day.
- i. Transactions for gift cards are captured within our point-of-sale system, enabling the ability to track gift card purchases at any location or on any shift. This applies to all gift card purchases, and is not a new practice created for this pilot program.
- j. Confirmed, no cash is disbursed.
- k. Once the gift card is activated, the gift card cannot be returned for a refund or credit. This policy applies to all gift card purchases, and is not a restriction created for this pilot program.
- l. The pilot will assess consumer usage and hence whether there is a benefit to the communities involved, operational capabilities, number of business and payroll checks cashed, and funds transferred to a gift card.
- m. Although we are considering potential next steps for this initiative, no decisions or definitive plans regarding terminating, changing, or expanding the pilot have been made. Such decisions are pending further evaluation of the pilot.

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n. Unlike what is perhaps suggested in the question, Greeting Cards and other Stationary products are not part of the pilot program. The table listed below provides gift card volume and value data for the for the additional payment method being tested at the four pilot sites location To provide additional context for these data, comparable information is provided under seal as part of USPS-FY21-NP32 for Gift Cards purchased with the other methods of payment. The fee revenue for the six gifts cards associated with business checks is \$35.70. We currently do not track gift card cost data specific for these sites.

GIFT CARDS SALES (Volume & Value) from 9/13/21 to 1/12/22					
	BRONX	BAILEY'S		DOROTHY	
	BAYCHESTER	CROSSROADS	BALTIMORE	HEIGHT STATION	
PILOT SITES	STATION	VIRGINIA	MAIN OFFICE	WASHINGTON DC	TOTALS
CHECK - # GIFT CARDS (PILOT)		1	3	2	6
GIFT CARD VALUE		\$212.28	\$248.08	\$88.10	\$548.46
Avg Value Per Gift Card		\$212.28	\$82.69	\$44.05	\$91.41

o. We are currently offering gift cards for sale and gift cards have been determined by the Commission to be a postal service. The Postal Service does not consider the sale of gift cards to constitute the provision of financial services. Since all these locations already offer gift cards, minimal training was necessary to allow an additional form of payment (business and payroll check) to be accepted for a gift card transaction. Please see the response to subpart p regarding that training.

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p. In partnership with a major postal union, the Postal Service conducted training for all (28) clerks and (8) management staff at the four pilot locations, which included a Service Talk, FAQs, PowerPoint and ZOOM training. The training consisted of content providing a background of the pilot, and discussions of check handling processes, standard work instruction for the transaction including Point-of Sale workflow, and FAQs. Materials associated with this training are provided under seal as part of USPS-FY21-NP32 in order not to jeopardize the potential effectiveness of fraud countermeasures covered in the training.

q. Checks are accepted in accordance with Handbook F101, which includes a check clearing validation process in all retail locations, including the four pilot locations. The Postal Service is exploring enhanced verification services to provide additional check validation for retail products and services purchased with a check.

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2. In Docket No. MC2014-26, the Postal Service sought to add Gift Cards as a price category within the Greeting Cards and Stationary competitive product.² In its request, the Postal Service states that “[g]ift cards purchased at Post Offices are likely to be mailed, similar to greeting cards and stationary,” and “that selling gift cards at Post Offices will foster the use of the mails.” Docket No. MC2014-26 Request at 7. It further states that “selling gift cards at Post Offices qualifies as a postal service, since sales would be ancillary to the delivery of letters and mailable packages.” *Id.* at 10.
- a. Please explain the Postal Service’s rationale as to whether customers purchasing gift cards with payroll or business checks are likely to mail those gift cards.
 - b. Please estimate the number of gift cards purchased with payroll or business checks that were mailed during the Pilot Program.

RESPONSE:

- a. The Postal Service does not consider that simply authorizing an additional form of payment for gift cards affects the previous conclusions reached in Docket No. MC2014-26 concerning the nature of the gift card product. As such, for the pilot, the rationale and the expectation of mailing Gift Cards remains the same as stated in Docket No. MC2014-26.

² See Docket No. MC2014-26, Request of the United States Postal Service to Add Gift Cards as a New Price Category in the Greeting Cards and Stationary Product, June 9, 2014 (Docket No. MC2014-26 Request).

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b. The Postal Service does not systematically track whether gift cards, however purchased, are mailed. Therefore, the Postal Service generally has no basis to estimate how many gift cards are mailed, including the Gift Cards sold from September 13 to January 12, 2021, as part of the pilot.