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I. EXECUTIVE SUMMARY AND INTRODUCTION

Approximately 9 million households, or one out of every 12 in the United States, are "unbanked"—people without a banking relationship who rely on high-fee non-bank check cashers or money transfer services. Another 21 million Americans are "underbanked"—people who have checking accounts but often turn to higher-cost services, such as high-fee international remittances or 300 percent-interest payday loans. A disproportionately large number of these households are minority and low income.

For several years, the federal government has been wrestling with how to meet the needs of the unbanked. In a limited way, the Postal Service is already meeting some of the needs of the unbanked through its affordable and convenient money transfer services. With its vast yet localized infrastructure and its reputation for trustworthiness, the Postal Service is well positioned to play a greater role in reaching the unbanked. By expanding its money transfer services (both domestic and international), the Postal Service's could significantly increase its contribution to society. This Study explores the benefits to society that the Postal Service already provides through its current services to the unbanked as well as the opportunities for increasing those benefits through expanded money transfer services, which may be permissible under current law. Intended to inform policymakers in the postal industry, the Study outlines the relevant background on banking trends to enable the postal community to understand and evaluate the Postal Service's current and potential role in serving the unbanked. The Study examines the following issues:
<table>
<thead>
<tr>
<th><strong>SUMMARY OF ISSUES</strong></th>
<th><strong>Topic</strong></th>
<th><strong>Questions</strong></th>
<th><strong>Findings</strong></th>
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<tbody>
<tr>
<td><strong>Needs of the Unbanked</strong></td>
<td>Who are the unbanked? What are their needs? What efforts have banks and the government made to meet those needs?</td>
<td>Primarily minority and low income, the unbanked need both transaction (money transfer and check cashing) and credit services. Mainstream banks have been slow to serve this population, and only now are beginning to see potential profits in reaching out to the unbanked. Since 2009, the FDIC has spearheaded initiatives to assess the unbanked problem and, with uncertain success, to encourage banks to offer no frills accounts to the unbanked.</td>
<td></td>
</tr>
<tr>
<td><strong>Alternative Financial Services (AFS)</strong></td>
<td>Where do the unbanked turn for money transfer services? What transaction services are used by the unbanked? How large is that market? What new trends are affecting the AFS market?</td>
<td>13,000 AFS providers handle over $320 billion in transactions annually with a wide variation in fees. The unbanked use AFS providers for transactions services, such as check cashing, domestic money orders, and international remittances (especially to Latin America). With new technology, open loop prepaid cards and mobile phone payments may change how money transfers are handled.</td>
<td></td>
</tr>
<tr>
<td><strong>Social Benefit of Existing Postal Service Offerings</strong></td>
<td>How does the Postal Service currently benefit society by providing affordable services to the unbanked?</td>
<td>The Postal Service currently offers hard copy domestic money orders, hard copy international money transfers, and electronic international money transfers from selected post offices to Latin American countries (Dinero Seguro). Its rates are competitive with other AFS providers, such as Western Union and MoneyGram. In comparison with the size of the needs of the unbanked, the Postal Service’s contribution is limited; there is room to expand its offerings and increase the resulting social value.</td>
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</tr>
<tr>
<td><strong>Opportunities and Obstacles to Increasing Social Benefits</strong></td>
<td>Are there opportunities to increase social benefits by expanding the Postal Service’s money transfer services to the unbanked? What have other posts done to serve the unbanked? What are the legal considerations relating to the Postal Service’s expansion of services to the unbanked?</td>
<td>Opportunities for the Postal Service to explore include: expansion of its domestic and international money transfer services from hard copy to electronic format; electronic money transfers for bill payments; reconfiguring Automated Postal Centers to process money transfers; open loop prepaid cards for government benefits and refunds; other types of prepaid cards. While other posts have seen revenue growth from financial services, the Postal Service operates under the &quot;nonpostal services&quot; restriction in PAEA. While certain products may require legislation, others may be configured to be acceptable under current law.</td>
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II. THE UNMET NEEDS OF THE UNBANKED

Reaching unbanked and underbanked households has been a priority of the federal government since 2008. Sheila Bair, Chair of the Federal Deposit Insurance Corporation (FDIC), has articulated that agency's strong commitment to ensuring that all consumers have access to basic financial services, including checking accounts and affordable money transfer services. In early 2009, the FDIC conducted the "FDIC Bank Survey," a nationwide survey of FDIC-insured depository institutions to assess their efforts to serve unbanked and underbanked individuals and families. In late 2009, the FDIC conducted a companion survey of unbanked and underbanked households,

1 The term "unbanked" is defined as individuals or families who do not have an account with a depository institution (a commercial bank, savings institution, or credit union) or a transaction account with a money market mutual fund or brokerage firm. The term "underbanked" refers to those individuals or families who have a deposit account but who also rely on alternative non-bank financial service providers (such as check cashing firms or payday lenders) for transaction or credit services.

2 Prior to becoming Chair of the FDIC, Professor Bair testified before Congress about the needs of the unbanked: "The unbanked typically pay higher costs in the form of transaction fees for financial services than individuals with banking relationships. Recent Treasury research indicates that a minimum wage worker can pay an average of $18 per month for cashing paychecks at a check casher. A Social Security recipient would pay an average of $9-16 a month to cash his or her risk-free government check. Relying on alternative service providers as a source of credit is equally or more expensive. Annualized interest rates for loans from pawnshops, car-title lenders, payday lenders, and small loan companies can be as high as 100 to 500 percent. Individuals also face heightened safety and security risks as a result of having to conduct all financial transactions in cash. Carrying large amounts of cash is dangerous and keeping cash at home is risky." http://banking.senate.gov/02_05hrg/050202/bair.htm. See also Bair, Sheila C., "Improving Access to the U.S. Banking System Among Recent Latin American Immigrants," Center for Public Policy and Administration, University of Massachusetts, Amherst; 2002.


4 The FDIC Bank Survey was mandated by Section 7 of the Federal Deposit Insurance Reform Conforming Amendments Act of 2005, which requires the FDIC to conduct ongoing surveys "on efforts by insured depository institutions to bring those individuals and families who have rarely, if ever, held a checking account, a savings account or other type of transaction or check cashing account at an insured depository institution in the conventional finance system." Pub.L. 109-173, encoded at 12 U.S.C. § 1831z.
the "FDIC Household Survey,"\textsuperscript{5} to determine the size of the unbanked population, the obstacles facing the unbanked, and their most needed financial services. And, in August 2010, the FDIC announced plans for its first pilot program to reach the unbanked.

The FDIC surveys identified the factors that hinder the unbanked from using the financial system and created a database to assess the efforts of banks to serve this population. These findings are a necessary starting point for our analysis of the Postal Service's role in providing money transfer services to the unbanked. The following sections describe the FDIC's findings on the demographics of the unbanked population, the unmet needs of this group, the limited response of mainstream financial institutions, and federal and state initiatives to address this problem.

\textbf{A. Identifying the Unbanked and the Underbanked}

The FDIC Household Survey determined that approximately 7.7 percent of U.S. households, or 9 million, are "unbanked," \textit{i.e.}, they do not have a checking or a savings account. The proportion of U.S. households that are unbanked varies considerably among different racial and ethnic groups, with certain racial and ethnic minorities more likely to be unbanked than the population as a whole. Those minorities are African-Americans (an estimated 21.7 percent of African-American households are unbanked), Hispanics (19.3 percent), and American Indian/Alaskans (15.6 percent). Racial groups

less likely to be unbanked are Asians (3.5 percent of Asian households are unbanked) and whites (3.3 percent).

Survey respondents provided the following reasons for not having a bank account: Do not have enough money to need an account (37.1 percent); do not write enough checks (18.0 percent); minimum balance requirement too high (12.7 percent); do not see value of account (12.4 percent); do not feel comfortable in banks (9.1 percent); language barriers at banks (6.9 percent); do not trust banks (6.3 percent); service charges are too high (6.3 percent); do not have documents to open account (5.5 percent); banks have inconvenient hours (3.7 percent); no bank near work or home (3.6 percent); and other (3.1 percent).\textsuperscript{6} FDIC Household Survey at 15.

In addition to unbanked households, an estimated 17.9 percent of U.S. households, roughly 21 million, are "underbanked." These households may have a checking or savings account, but they still rely on alternative financial services. Specifically, underbanked households have used non-bank money orders, non-bank check-cashing services, payday loans, rent-to-own agreements (RTO), or pawn shops brokers at least once or twice a year, or refund anticipation loans (RAL) at least once in the past five years. Again, certain racial and ethnic minorities are more likely to be underbanked than the population as a whole. Minorities that are underbanked include African-Americans (an estimated 31.6 percent), American Indian/Alaskans (28.9

\textsuperscript{6} Percentages sum to more than 100 because respondents were permitted to choose multiple responses. FDIC Household Survey at 25, Figure 4.12. Of interest is that several of these perceived obstacles would be eliminated if services were offered at local post offices (e.g., "no bank near work or home", "do not trust banks", "do not feel comfortable in banks").
percent), and Hispanics (24.0 percent). Asians and whites are less likely to be underbanked (7.2 percent and 14.9 percent, respectively). Id.

B. Needs of the Unbanked and the Underbanked

About 66 percent of unbanked households have used Alternative Financial Services (AFS). AFS offerings include (a) transaction products, such as non-bank check cashing and non-bank money orders; and (b) credit products, such as payday lending, pawn brokering, RTOs, and RALs. About 62.1 percent of unbanked households have used an AFS transaction product, and 26.6 percent have used an AFS credit product. Non-bank money orders are by far the most popular AFS for unbanked households: 54.0 percent of respondents used non-bank money orders; 38.2 percent used non-bank check cashing services; 14.3 percent used pawn shops; and 11.9 percent used RTO agreements. Unbanked households that use non-bank money orders tend to use them regularly. Over 80 percent of unbanked households that use non-bank money orders do so three or more times a year. Id. at 28-29.

Underbanked households also rely heavily on non-bank money orders. Purchasing money orders at a place other than a bank is the most prevalent type of AFS activity among underbanked households. More than 80 percent of underbanked households have purchased money orders from non-bank providers, and more than one-half of underbanked households have done so at least a few times a year. In fact, for 41 percent of underbanked households, the only AFS product ever used is the non-bank money order, and for 49 percent of underbanked households, the non-bank money order is the only AFS used "more than rarely." Id. at 41. Convenience and cost
were cited as the primary reasons why underbanked households purchased non-bank money orders. In addition, the FDIC Household Survey found that prepaid cards are becoming a more common method of payment and an alternative to traditional deposit accounts for the unbanked. About 12 percent of unbanked and 16 percent of underbanked households have used the open loop general spending card.

Prepaid cards can be "closed loop" or "open loop", depending upon how the cards may be redeemed. Closed loop cards, such as retail gift cards, can be redeemed only at locations belonging to the issuer and are considered a way to facilitate payment rather than generate fees. In contrast, open loop cards provide much more flexibility, and have become a popular alternative financial services product for the unbanked.

7 Costs include hidden fees that account holders may pay at the end of the month. Many unbanked persons indicated that they preferred to pay a higher fee each time they conducted a transaction to avoid paying unexpected monthly charges or special fees. See footnote 6, infra, for discussion of the convenience factor.

8 The FDIC Household Survey found that only 3.0 percent of unbanked households and 4.2 percent of underbanked households currently receive income through a payroll card on which an employer loads salary payments instead of providing checks or cash to its employees. FDIC Household Survey at 40.

9 In 2007, $179.6 billion was loaded onto closed loop cards, of which $66.2 billion represented retail store gift cards. Government agencies also issued closed loop prepaid cards, loading $61.9 billion of benefits, such as food stamps and Temporary Assistance for Needy Families, onto prepaid cards in 2007. Bradley, C. et. al, “Alternative Financial Service: A Primer,” at http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_1/FDIC140_QuarterlyVol3No1_AFS_FINAL.pdf at 6 (“AFS Report”). In most studies, closed loop cards are not considered an AFS product needed by the unbanked.
Open loop cards can be redeemed at numerous locations and by many different vendors. One type of open loop card is the prepaid general spending card (e.g., a Stored Value Card), which is loaded with funds and branded with a payment network logo, such as Visa or MasterCard. Funds may be added to the card as needed, and the card can be used wherever the payment network brand is accepted.

C. Limited Transaction Services Offered by Mainstream Banks to the Unbanked

The FDIC Household Survey supports the conclusion that money transaction products, such as money orders, are an essential need of the unbanked.10 The banks, however, have been slow to meet this need. The FDIC Bank Survey found that, besides limited check cashing services, banks offer very few products to non-customers, and when they do, they charge them much higher fees than those charged bank customers.

Only 37 percent of banks surveyed offer bank checks and money orders to non-customers, and only 6 percent of banks surveyed offer international remittance services to non-customers.11 The FDIC Banks Survey concluded that: “Products that are least often offered to non-customers are those that allow funds to be transferred

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10 While the unbanked and underbanked need AFS credit products as well as transaction products, credit products are not within the scope of this Study. Although urgently needed by the unbanked, the Postal Service does not now offer credit products, and they raise different risks and legal issues than transaction products.

11 Since the survey, some banks have begun to perceive a revenue opportunity in international remittances. The section on International Remittances, infra, provides further details about this recent development.
internationally, specifically foreign currency exchange, international remittances, and automated clearinghouse (ACH) transfers. Not offering these kinds of products could make it more difficult for unbanked and/or underbanked individuals, many of whom are immigrants, to send money to family and friends in different countries.” FDIC Banks Survey at 10.

The Survey revealed that 73 percent of responding banks were aware of a significant unbanked population in their service area, but only 18 percent were reaching out to bring them in as customers. The responding banks believed that they had a limited ability to serve non-customers who needed money orders, wire transfers, and international remittances because of concerns under the Patriot Act, Anti-Money Laundering (AML) guidelines, and Bank Secrecy Act (BSA) regulations. Banks also indicated that they were reluctant to cash checks for non-customers because of false identification and fraud concerns.

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12 The FDIC Banks Survey documents the efforts of some banks to establish financial education and outreach efforts to the unbanked. These efforts have had varied success in inducing the unbanked to open accounts. FDIC Banks Survey at 41, et seq.

13 The Bank Secrecy Act of 1970 (BSA) requires U.S. financial institutions to assist U.S. government agencies to detect and prevent money laundering. Specifically, the Act requires financial institutions to keep records of cash purchases of negotiable instruments of $3,000 or more and to report suspicious activity that might signify money laundering, tax evasion, or other criminal activities. The BSA is sometimes referred to as “anti-money laundering” law (AML) or jointly as “BSA/AML.” Several anti-money laundering acts, including provisions in Title III of the USA Patriot Act, have been enacted to amend the BSA. See 31 USC 5311 et seq., 12 USC §§1829b, and 1951-1959. See also 12 USC §1818(s) (federally insured depository institutions) and 12 USC §1786(q) (federally insured credit unions). For details on BSA/AML compliance, see http://www.ffiec.gov/bsa_aml_infobase/pages_manual/manual_online.htm.

14 Fraud was a major concern in cashing non-customer checks for 75 percent of the responding banks, and regulatory issues was a major concern for 40 percent. FDIC Banks Survey at 146. Efforts to address identification concerns are discussed in the section on International Remittances, infra.
The FDIC Study also compared bank fees charged customers and those charged non-customers for money transfer products, finding that, when banks made money transaction services available to non-customers, they imposed significantly higher fees than those paid by customers.\(^{15}\)

<table>
<thead>
<tr>
<th>Product/Service</th>
<th>Yes Offer for Non-Deposit Customers?</th>
<th>For a Non-Customer</th>
<th>For a Customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank/official checks</td>
<td>37.3%</td>
<td>$$5.99$</td>
<td>$$4.63$</td>
</tr>
<tr>
<td>Money orders</td>
<td>37.3%</td>
<td>$$3.22$</td>
<td>$$2.70$</td>
</tr>
<tr>
<td>Domestic wire transfers</td>
<td>22.9%</td>
<td>$$21.30$</td>
<td>$$17.90$</td>
</tr>
<tr>
<td>International remittances (not ACH)</td>
<td>6.2%</td>
<td>$$39.04$</td>
<td>$$42.48$</td>
</tr>
<tr>
<td>International ACH transfers</td>
<td>1.4%</td>
<td>-</td>
<td>$$12.48$</td>
</tr>
<tr>
<td>Foreign currency exchange</td>
<td>10.7%</td>
<td>$$8.83$</td>
<td>$$9.19$</td>
</tr>
<tr>
<td>Bill payment (e.g., utility)</td>
<td>11.5%</td>
<td>$$0.28$</td>
<td>$$1.48$</td>
</tr>
<tr>
<td>Reloadable prepaid debit cards (Visa, MasterCard, etc.)</td>
<td>12.5%</td>
<td>$$5.88$</td>
<td>$$4.76$</td>
</tr>
</tbody>
</table>


**D. Limited Government Initiatives to Reach the Unbanked**

On August 10, 2010, the FDIC announced plans for the "Safe Accounts Program" to encourage banks to offer no-frills, low-cost checking and savings accounts to currently unbanked persons.\(^{16}\) The FDIC’s model checking account would allow

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\(^{15}\) There are also differences among regions for banks that offer these money transfer products. *Id.* at 163-166.

customers to open a basic, essential services account for as little as $10.00, which would be insured by the FDIC; the account would have reasonable rates and fees and no charges for overdrafts. Banks may also offer “checkless” accounts, allowing withdrawals only through ATMs or other point-of-sale terminals. While banks are permitted to charge a low monthly maintenance fee, no hidden fees, such as overdraft protection fees, are allowed. Nine banks have been chosen for the pilot program, which was slated to begin in early 2011.17

Whether the banking industry will respond enthusiastically to this program is uncertain. The program is designed to assess whether minimizing fees is in fact sustainable across the industry. The American Bankers Association, an industry trade group that says it supports drawing in more low-income consumers, has called the FDIC initiative "an inflexible 'one-size-fits-all' approach" that "would not be economically viable" for banks. "It is unclear how the new programs will fare at a time when many banks have indicated they are likely to raise fees for basic checking accounts due to new regulations."18

Meanwhile, the Treasury Department has sought $50 million from Congress to create a "Bank On USA" program to extend local initiatives that encourage people to set

up bank accounts. The Treasury Department has also issued several grants to help draw lower-income consumers into the financial mainstream.19

At the state level, California launched the "Bank on California" initiative in 2008 to help more low- and middle-income Californians establish savings accounts, build credit histories, and gain access to lower-cost sources of credit. Bank on California is a collaborative voluntary initiative involving financial institutions, city mayors, federal bank regulatory agencies, and community groups, to develop starter accounts with features that work for unbanked consumers and to educate unbanked persons about the benefits of account ownership.20

In addition, the National League of Cities' "Bank on Cities" Campaign helps participating communities set up partnerships with banks and credit unions to develop safe and affordable products for unbanked consumers. These banks and credit unions offer "second chance" accounts for customers who have bounced checks in the past. The Campaign enlists the help of United Way affiliates to reach out to low-income consumers who are wary of banks.21

Government and community initiatives to reach the unbanked reflect the high priority our nation gives to meeting the needs of the unbanked. Traditional financial institutions have historically been reluctant to offer transaction services to the unbanked,

19 Id.
and are only now beginning to seek profit opportunities in this sector. In the interim, the unbanked have turned to the Alternative Financial Services market to fulfill their financial transaction needs.
III. THE ALTERNATIVE FINANCIAL SERVICES MARKET

Alternative Financial Services (AFS) providers include check-cashing outlets, money transmitters, car title lenders, payday loan stores, pawn shops, tax preparers, and rent-to-own stores. These providers operate outside of the regulated system for federally insured banks and thrifts. AFS products may be delivered via storefronts, convenience stores, the Internet, financial services kiosks, or mobile phones. Because the Postal Service also provides money transfer services, it can technically be considered a provider of AFS products. This section details AFS transaction products offered by private, non-bank AFS providers; section IV focuses on the AFS transaction products offered by the Postal Service.\(^{22}\)

More than 13,000 non-bank financial services companies operate nationwide, offering a range of transaction and credit services with a great variation in fees. Because the AFS sector is loosely defined, overall volume is difficult to estimate. Chart 1, which appears on the FDIC’s website, shows $320 billion in annual AFS transactions (including some credit products), but that figure is likely understated because it reflects only formally recorded transactions.\(^{23}\)

\(^{22}\) As noted previously, credit AFS products, such as Payday Lending, Refund Anticipation Loans, Rent-to-Own, and Pawn Shop Borrowing, are not included in this analysis mainly because these credit products have higher levels of risk than transaction products.

A 2007 survey conducted by the Financial Service Centers of America (FiSCA)\textsuperscript{24} attempted to project the amount and scope of business transactions in the entire AFS industry. Estimates were based on the assumption that the 6,500 FiSCA members responding to the Survey represented half of the industry. FiSCA's estimates are close to the FDIC's estimates of check cashing and money order volume, but significantly lower for remittances and pre-paid cards. For these four products, the FDIC's volume estimate is $160 billion, and the FiSCA's estimate is $93 billion:

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{chart.png}
\caption{The Dollar Volume of AFS Transactions Totals More Than $320 Billion Annually}
\end{figure}

\textsuperscript{24} Financial Service Centers of America (FiSCA), describes itself as "the professional trade organization representing more than half of the nation’s financial service center providers, with more than 7,000 locations in communities across the country. Financial service centers offer a wide array of basic financial services to millions of Americans including check cashing, money transfers, money orders, bill payments and small dollar, short-term loans. FSC customers receive immediate access to their money without having to wait for checks to clear the banking system. These consumers appreciate the range of convenient and valuable 'pay as you go' services offered by FiSCA members for which they know there will be no hidden fees or back-end charges." http://www.fisca.org.
A. Check Cashing, Bill Payment, and Money Order Services

The AFS market processes more than 170 million checks per year, with a face value of over $58 billion. Check cashers typically charge 3-4 percent of the face value of the check, subject to the limitations of state law, if any. About two thirds of the checks cashed at nonbank outlets are payroll checks; another 18 percent are state or federal benefits checks. Dollar Financial Corp.'s 10(k) filing at the SEC, dated August 20, 2008, indicated that the write-offs related to check-cashing operations were low, from 0.26-0.31 percent annually in 2006-2008. Because losses from check cashing tend to be low, retailers are increasingly realizing the revenue-generating potential of check cashing. Wal-Mart, for example, opened its first Money Center in 2002; in 2008, it cashed 45 million paychecks with a face value of $17 billion.
value of $17.6 billion are sent with an average cost of $0.64 each; more than 57 million bill payment transactions are made at an average cost of $0.86 per transaction.26 A 2008 study by the Pew Charitable Trusts estimated that the average unbanked household in California spends more than $700 yearly on AFS check cashing fees.27

Ace Cash Express is the largest check-cashing company in the nation, with 1,700 stores. Dollar Financial Corporation is the largest publicly traded check-cashing company, with 470 stores. In addition to cashing checks, these companies provide ATM access, electronic bill payment, payday loans, pawnbroker services, and electronic tax preparation and filing. Many check cashiers also sell public transit passes, postage stamps, and phone cards; issue motor vehicle license plates and titles; process parking tickets; and provide photocopying and fax services. AFS Report at 2.

Check cashing operations usually offer money orders as well. Each week, Wal-Mart processes over 2 million money orders, remittances, and check cashing transactions, and the volume of these services grew more than 40 percent in 2008. Wal-Mart even attempted to buy a bank in the United States, but its effort was frustrated by fierce lobbying by established financial services institutions. Wal-Mart has since

7-Eleven Inc. also offers check cashing services in about 2,000 select stores through 2,000 self-service V-Com kiosks. AFS Report at 2.


announced plans to expand its services to the unbanked, launching a bank in Canada and buying a significant stake in its debit card partner, Green Dot.\textsuperscript{28}

\textbf{B. International Remittances}

The World Bank estimates that recorded remittances of money from one country to another totaled $355 billion in 2007, up from $307 billion in 2006. In 2008, officially recorded remittance flows hit an all-time high of $443.4 billion. In 2009, flows totaled over $414 billion worldwide. The 6.7 percent decrease was the result of the 2009 recession. The U.S. continues to lead as the primary remittance sending country, with 48 percent of remittances flowing from the U.S.\textsuperscript{29}

International remittance activity is handled primarily outside of banks by AFS providers. Although a growing number of community and large banks in the United States are now seeking to capitalize on the opportunities presented by the emerging

\textsuperscript{28} "In developing a closer relationship with Green Dot, Wal-Mart will be able to learn more about how its business provides services to 'unbanked' consumers who don't have ready access to financial services. With help from Green Dot, Wal-Mart can keep expanding customer access to services such as low-cost wire fund transfers that it has grown in the U.S. and built upon by introducing relatively inexpensive prepaid debit cards. They act as an alternative payment method for customers lacking credit cards or checking accounts." http://www.bnet.com/blog/retail/how-walmart-is-making-itself-into-a-bank-for-the-unbanked/10031.

\textsuperscript{29} The Migration Policy Institute, which compiled these statistics, notes that "These data only capture remittances sent through formal channels such as banks and money transfer operators. Currently, no uniform and authoritative historical data on informal flows exist. Given the widespread use of informal remittance channels in many countries, the remittance data presented in this guide should be regarded as underestimates of the total flows." http://www.migrationinformation.org/datahub/remittances.cfm; cf. http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MigrationAndDevelopmentBrief11.pdf. According to some analysts, remittances through informal mechanisms may be roughly equal to transfers through formal channels. APEC, "Informal Funds Transfer Systems in the Asia Pacific Economic Cooperation Region: Initial Findings and a Framework for Further Analysis," prepared by APEC Alternative Remittance Systems Working Group and core team of the World Bank, Phuket, Thailand, 2003, at 8.
remittance market by linking them to banking services, banks currently capture less than 3 percent of the market. Western Union is the largest provider of international remittance service, with 335,000 agent locations in more than 200 countries. In 2007, Western Union processed over 167 million customer-to-customer transaction with a face value of $64 billion. Fifty-seven billion dollars of that total were international transfers. AFS Report at 4. Western Union provides a fee calculator for international transfers on its website: a one-time $1,000 remittance from Los Angeles to Mexico costs between $9.99 to $14.99. Western Union also provides customers with a Gold Card, which stores customer information, eliminating the need for forms and reducing transaction times. The Gold Card also encourages customer loyalty by enabling customers to earn points that are redeemable for goods and services.

1. Remittances to Latin America

Of particular interest for the unbanked in the United States are remittances to Latin America. Research by the Inter-American Development Bank (IADB) has documented that remittance flows to Latin America and the Caribbean totaled $40 billion in 2004 with approximately $30 billion of these flows originating in the United


States. The remittance market to Latin America is projected to reach $300 billion by early 2011. Remittances sent to relatives in the home countries help pay for basic family needs such as food, clothing, and shelter. A 2004 study by the IADB reports that 10 million immigrants living in the United States send money home on average 12.6 times a year, generally a few hundred dollars at a time.

Many Latin American remittance senders living in the United States do not have a bank account. For example, 35 percent of Ecuadorians, 64 percent of Salvadorans and 75 percent of Mexican immigrants are unbanked. For many Latin American immigrants, legal status and lack of traditional identification are the principal reasons given for not having an account. Most remitters must rely on currency exchanges to cash checks and high-cost wire transfer companies to send money to their relatives in Latin America.

Of the 100 million separate remittance transactions every year from the United States to Latin America, almost all are outside the formal banking system. Wire transfer companies such as Western Union and Money Gram are among the largest

34 Remarks by Sheila C. Bair, then-Assistant Secretary for Financial Institutions, before the Multilateral Investment Fund/Inter-American Development Bank, Second Regional Conference on Impact of Remittances as a Developmental Tool, 2004.
36 Pew Hispanic Center Report at 19.
37 Id.
beneficiaries of these financial flows and the associated, often lucrative, fees. The former has 6,000 offices throughout Mexico, including branches in post offices. The two companies once controlled 40 percent of remittance transactions from the United States to Mexico, but increasing competition from other wire transfer companies and, to a lesser extent, from banks, has decreased their market share to 15 percent.\textsuperscript{38}

Competition has also reduced fees considerably from a high of 15 percent of the amount remitted in the late 1990s.\textsuperscript{39}

Recognizing a financial opportunity in remittances to Mexico, established financial institutions have launched initiatives to capture this market. Citigroup Inc. and Bank of America Corporation have laid the foundation for future market penetration through acquisitions of two large Mexican banks, Banamex and Serfin, respectively.\textsuperscript{40}

In addition, Bank of America launched a bi-national credit card to make it easier for migrants to send money across the border. Both the U.S. cardholder and the designated person in Mexico are issued a Banamex/USA credit card. The latter can use the card anywhere it is accepted in Mexico, and the U.S. cardholder can pay the entire credit card bill in dollars and adjust the spending limit at any time. The cardholder in Mexico may also withdraw money from automated teller machines (ATMs). Bank of


\textsuperscript{39} Pew Hispanic Center Report at 2. See Section IV, infra, for a comparison of the USPS’ fees with Western Union and Money Gram fees.

\textsuperscript{40} http://www.bnamericas.com/news/banking/Bank_of_America_buys_25*_of_Santander_Serfin; http://www.citigroup.com/citi/corporate/history/banamex.htm,
America announced that the number of bank transfer accounts via the U.S.-Mexico channel soared 1,500 percent as a result.41

Wells Fargo’s InterCuenta Express is touted as the largest distribution channel among U.S. banks for consumer remittance customers in Mexico. The program offers money transfer services between the U.S. and Mexico, an account-to-account wire transfer service that charges $8 to transfer up to $3,000 per day directly into a beneficiary's bank account in Mexico. Transfers can be initiated at the bank's branch or ATM in the United States, and the receiving party can access funds via the bank's sizeable remittance distribution network of more than 4,000 banking offices and 10,700 ATMs in Mexico.42 Wells Fargo has successfully used this service to encourage the unbanked to open bank accounts. Within the first seven months of offering this service, Wells Fargo opened 20,000 new accounts, totaling $50 million. Wells Fargo has also instituted a non-account, cash-to-cash remittance product, ExpressSend, for targeted regions in the world.

The Federal Reserve System and Banco de Mexico, the central bank of Mexico, have established Directo a Mexico, an account-to-account service that uses the ACH payment channel for Mexican remittances. This allows smaller banks to establish their own international remittance programs without additional set up costs.43 Small banks


can also purchase a ready-to-use turnkey remittance product such as Citigroup’s QuikRemit, which is operating in more than 90 countries.

Bilateral agreements and changes to U.S. banking laws and regulations in the past decade have facilitated remittance transfers for immigrants and have brought some of the unbanked into the formal banking system. For example, in 2001 the United States and Mexico launched the U.S.-Mexico Partnership for Prosperity, which fostered economic and labor opportunities in less developed parts of Mexico and expanded access to capital in Mexico. The Partnership also addressed the high cost of sending money from the United States to Mexico and encouraged banking institutions to market accounts that offered remittance features to Mexican workers.⁴⁴

Other laws and regulations have addressed the identification problems of the unbanked, and a growing number of U.S. banks now accept alternative forms of identification to help taxpaying immigrants open bank accounts and secure other banking services. These include the Individual Taxpayer Identification Number (ITIN) and foreign government issued identification, such as the Mexican Matricula Consular card. The USA Patriot Act allows financial institutions to accept both forms of identification, enabling insured financial institutions to serve unbanked immigrants who live and work in the United States.⁴⁵ The ITIN, created by the U.S. Internal Revenue Service, ⁴⁴   http://www.fdic.gov/regulations/ examinations/supervisory/insights/siwin04/latino_mkt.html.

Service (IRS) for foreign-born individuals who file federal tax returns, is a nine-digit number similar to the social security number (SSN) and is issued to individuals who are not eligible for a SSN.\(^{46}\) The Matricula Consular card is an identification card issued by the Mexican consulate to individuals of Mexican nationality who live in the United States. According to the Mexican government, an estimated 4 million Matricula cards have been issued in the United States, and 178 banks in the United States accept the Matricula Consular card to open bank accounts.\(^{47}\) The effectiveness of this form of identification was demonstrated when Wells Fargo opened over a quarter million new accounts for Mexican immigrants in less than two years after accepting Matricular Consular cards.\(^{48}\)

C. Open Loop Prepaid Cards

The use of open loop prepaid cards (general purpose cards that carry the MasterCard or Visa logo and can be used wherever those cards are accepted) has grown significantly in the past few years. In 2007, about $38.7 billion was loaded onto open loop cards (including payroll cards), reflecting an annual growth rate of approximately 45 percent. AFS Report at 6. In 2008, $60.42 billion was loaded onto

\(^{46}\) Individual Taxpayer Identification Number (ITIN) is a tax processing number issued by the Internal Revenue Service to individuals who are required to have a U.S. taxpayer identification number but who do not have and are not eligible to obtain a Social Security Number (SSN) from the Social Security Administration (SSA). ITINs are issued regardless of immigration status because both resident and nonresident aliens may have U.S. tax return and payment responsibilities under the Internal Revenue Code.


open-loop prepaid cards, a 55 percent increase from 2007.\textsuperscript{49} A 2010 Federal Reserve survey found that about 6 percent of consumers have used a prepaid card in the past month, and 9 percent have used one in the past year.\textsuperscript{50} In its Seventh Annual Prepaid Market Forecasts 2010 to 2013 report, Mercator Advisory Group concluded that "[i]n essence, increased consumer adoption coupled with greater loads in key government sectors including unemployment, court ordered payments, and social security, continue to drive increased loads for Open-Loop Prepaid Cards."\textsuperscript{51}

Unlike \textit{debit} cards, which are linked to a traditional bank account, open loop prepaid cards\textsuperscript{52} do not require a banking relationship and are often targeted to the unbanked. Examples of prepaid open loop cards include the following:

- Payroll cards are used by companies with large numbers of lower wage or unbanked employees as a replacement for hard copies or direct deposits of paychecks. AFS Report at 6.

- General purpose gift cards (\textit{e.g.}, Stored Value Cards) are sold for a fee at retailers\textsuperscript{53} or issuing banks and include gift cards sold by American Express.


\textsuperscript{52} See explanation of the difference between open loop and closed loop prepaid cards at 8, \textit{supra}.

\textsuperscript{53} Non-bank issuers of network-branded cards gain access to the payment networks through agency relationships with banks; some banks also offer fee-based prepaid financial service cards directly to consumers.
They are marketed as a more flexible alternative to retail store gift cards and are sold in predetermined amounts but can be reloaded for a fee. *Id.*

- Financial services cards, unlike general purposes gift cards, are not sold in predetermined amounts. Rather, they are initially funded and reloaded in amounts determined by the cardholder. Financial services cards, which do not require a bank account, are marketed to the unbanked, students, or recent immigrants and carry monthly maintenance and transaction fees that can be higher than traditional accounts, but they offer other benefits, such as immediate liquidity and the ability to control spending by limiting the amount of money on the card. *Id.*

- Government benefits prepaid cards will take the place of paper checks. For example, the Department of Treasury's "Direct Express®" card is available to the unbanked and can be loaded monthly with Social Security payments. The Office of Management and Budget has announced plans to eliminate most Treasury check payments by 2013. After March 1, 2011, Americans who apply for new assistance programs, including unemployment and disaster relief

54 These cards also act as a vehicle for financial institutions to reach individuals who choose not to use conventional banking services. They have the opportunity to grow this relationship over time to include more traditional bank offerings. eCommlink, "White Paper on Global Remittance: Market and Opportunities," 2009, at http://www.ecommlink.com/downloads/White_paper_Unbanked_Remittance_2.pdf.


56 On January 15, 2011, the Washington Post reported: "The Treasury Department is sending letters to 600,000 people this week encouraging them to sign up to receive their tax return on a new government-issued prepaid card as part of a pilot program to help those with limited access to bank accounts. http://www.washingtonpost.com/wp-dyn/content/article/2011/01/14/AR20110111403227.html.
disbursements, will no longer have the option to receive paper checks but will receive payments by prepaid cards or direct deposit.57

- Green Dot Cards, offered by non-bank Green Dot Corporation, are sold online or at retailers, such as grocery stores and pharmacies. Card fees include a $9.95 activation fee, a $4.95 monthly maintenance fee, and a $2.50 ATM withdrawal fee. *Id.* at 7.

- Emerald Cards, offered by H&R Block Bank, allow H&R Block's tax preparation customers to load their refunds onto a prepaid debit card.58

In the past year, financial institutions such as US. Bancorp, Wells Fargo, and Bank of America Corp have begun exploring prepaid cards as a way to make up revenue that will be lost from new federal restrictions on debit cards.59 Prepaid cards, although preloaded with funds and functioning as debit cards, are exempt from the restrictions in the new Dodd-Frank law. As a banking expert explained, "Banks are realizing that they have ignored this prepaid product and left it to the nonbanks . . . . They want that business back. A lot of people are starting to wade into prepaid in a


58  H&R Block Inc. was the largest issuer of Refund Anticipation Loans. These are short-term loans, usually seven to 14 days, offered by tax preparers as a way to speed the taxpayer's receipt of a tax refund. They are secured by the expected refund, and the RAL fee is deducted from the refund. H&R Block issued 3.9 million RALS in fiscal 2007, generating revenues of $189.8 million. See http://www.hrblock.com/offices/tax-services-refund-options.html. In December 2010, H&R Block announced that it will not be offering RALs in 2011 because the Office of the Comptroller of the Currency had barred HSBC, the exclusive banking partner of H&R Block, from offering RALs. http://www.consumerismcommentary.com/hr-block-tax-refund-anticipation-loans/.

59  Capital One Financial Corp. is one of the few traditional banks that currently offer prepaid cards. If the customer loads at least $500 on it, there are no monthly maintenance charges; otherwise the monthly fee is $4.95. http://www.capitalone.com/prepaid-cards.
significant way.\textsuperscript{60} As a result, use of prepaid cards is expected to continue growing over the next several years, from $25 billion (excluding payroll cards) in 2009 to $100 billion in 2014, as seen in the chart below.\textsuperscript{61}

\begin{center}
\includegraphics[width=\textwidth]{chart.png}
\end{center}

\textbf{D. The Future of AFS}

A discussion of non-bank money transfer services would be incomplete without an acknowledgement that innovative technologies are moving the industry toward

\begin{flushleft}
\textsuperscript{60} http://online.wsj.com/article/SB1000142405274870437004575651072113863694.html?KEYWORDS=debit+cards.
\end{flushleft}

\begin{flushleft}
\textsuperscript{61} Id.
\end{flushleft}
mobile financial services. In the area of prepaid cards, technological advances now enable cardholders to manage their prepaid card account and to transfer money using their mobile phone. According to the United Nations, half the world’s population—about 3.3 billion people—has access to mobile phones. This year mobile penetration in developing countries is expected to cross the 50 percent mark. Most mobile phones deployed over the past five years are equipped with the functionality to make remote mobile payments, for the first time allowing access to banking for many rural poor. The mobile infrastructure allows immigrants to send money home by sending a text message on their phones—without having to visit a money transfer office location. Remittance recipients can receive funds at any time and any place. Projections suggest that such use of cellular networks could increase the value of remittances to over $1 trillion in the next five years.

In the United States, companies have been experimenting with contactless mobile payments for years, but 2011 is expected to be the year the technology takes hold, primarily because millions of phones capable of making contactless payments are

62 Another growing AFS trend, unrelated to prepaid cards, is person-to-person lending (2P). One P2P platform, VirginMoney.com, facilitates and formalizes loan transactions between borrowers and lenders that know each other. Prosper.com and Lending Club Corp. are online loan auction sites where borrowers post the purpose of their loan and the terms that they are willing to accept, and lenders bid for all or a portion of loans. AFS Report at 9-10.

63 For example, in March 2008, after just 11 months in service, Safaricom's M-PESA in Kenya had attracted more than 1.6 million subscribers and had handled transactions totaling KES.9.3 billion (US $148 million). http://www.ecommlink.com/downloads/White_paper_Unbanked_Remittance_2.pdf.

64 MasterCard, the Inter-American Development Bank, mobile phone providers, and banks have partnered with GSM Association, a global trade group for wireless carriers to test cell phones as a vehicle for international remittances. See discussion on use of new technology, included ATMs and debit cards, to reach the unbanked in Michael S. Barr, Banking the Poor, 21 YALE JOURNAL ON REGULATION 121 (2004) at http://www.brookings.edu/es/urban/publications/20030715_barr.pdf at 4.
expected to be put in circulation in 2011. The pay-by-phone market is forecast to handle $22 billion in transactions by 2015, up from "practically none" in 2010, according to research firm Aite Group. Companies including Visa, MasterCard, Google, Bank of America, Citi, and U.S. Bank are testing contactless mobile payments, and many expect to roll out mobile wallets this year. Bank of America plans to launch its own mobile wallet shortly and has claimed: "2011 is going to be a very exciting, very dynamic year when it comes to mobile payments because it's the Wild West again, with all these players positioning in various different ways to redefine the digital payments landscape."65

One negative trend accompanying the explosion of prepaid cards is their use by drug traffickers and other criminals to move proceeds from drug transactions and other criminal activities across international borders. In the United States, it is legal for anyone to enter or leave the country with money that is stored on these cards. U.S. legislators are considering creating laws that would require travelers crossing, entering or leaving the country to report these cards.

IV. THE SOCIAL BENEFIT DERIVED FROM SERVICES TO THE UNBANKED CURRENTLY PROVIDED BY THE POSTAL SERVICE.

The previous sections have demonstrated that (a) the federal government recognizes that meeting the needs of the unbanked is a priority—an undisputed benefit to society; and (b) the needs of the unbanked for transaction services are immense and growing, but have not, in general, been a priority of mainstream financial institutions.

How do these conclusions impact the Postal Service? First, it is fair to conclude that the money transfer services that the Postal Service currently provides to the unbanked and underbanked deliver a distinct, recognizable benefit to society. This section describes these postal products. Second, the unfulfilled needs of the unbanked for money transfer services give rise to opportunities for the Postal Service to offer expanded, updated, or new services to this group of consumers, thereby increasing the benefit to society and growing postal revenue. Section V addresses the opportunities for and obstacles to Postal Service expansion of services to the unbanked.

A. Existing Postal Service Money Transfer Services

The Postal Service currently offers three money transfer products that are available at reasonable cost to the unbanked: (1) Domestic Money Orders; (2) International Money Orders; and (3) Dinero Seguro, an electronic money transfer to certain Latin American countries. Each product is described below.66

66 These products are described in Section 503 of the Domestic Mail Manual (DMM) and Sections 370 and 372 of the International Mail Manual (IMM).
1. **Domestic Money Orders**

Money orders are purchased at any Post Office, branch or station, or money order facility for the U.S. Armed Forces, and are available up to $1,000.00. They are marketed as a "safe, convenient, and economical alternative to sending cash through the mail." A current government-issued or state-issued picture ID is required if money order purchases by one person exceed $3,000 in a single day. Money orders may be purchased with cash, debit card, or traveler's check, and domestic money orders are paid regardless of the time passed since their issue. Moreover, the Postal Service will replace damaged, lost or stolen money orders. Current fees are:

### USPS Domestic Money Orders Fees

<table>
<thead>
<tr>
<th>Amount Range</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.01 to $500.00</td>
<td>$1.10</td>
</tr>
<tr>
<td>$500.01 to $1,000.00</td>
<td>$1.50</td>
</tr>
<tr>
<td>Postal Military Money Orders</td>
<td>$0.30</td>
</tr>
</tbody>
</table>

Rural carriers do not sell money orders directly to customers but rather collect from customers on their route a completed copy of PS Form 6387, *Rural Money Order Transaction*, along with the face value and fee amount. The money order is issued when the carrier returns to the office, and is either mailed or delivered to the customer on the next delivery.67

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67 Postal officials have informed us that rural carriers do not cash money orders. "Rural carriers would need to be trained in Bank Secrecy Act policies and procedures and carry significant amounts of cash with them. A lockable container would have to be secured in carrier vehicles for security purposes to hold the cash. Allowing rural carriers to cash money orders could impact several operational areas: carrier safety by carrying cash, employee accountability (maintaining and handling the cash), idle
U.S. money orders can be cashed at any post office or deposited or negotiated at any financial institution. When presenting a money order for payment, the customer seeking payment signs in the presence of a postal employee. If the customer is not known to the employee, suitable identification may be required. Any customer whose daily total of cashed money orders exceeds $10,000.00 must also complete Form 8105-A, Funds Transaction Report (FTR), and show a photo ID.

The Postal Service has adopted detailed security measures for cashing money orders. Small post offices follow the same rules as larger offices for selling and redeeming money orders. In all post offices, the policy for cashing money orders is based on cash available. Post offices do not keep on hand additional cash in the event a money order may be cashed at their office. Rather, money orders are cashed using cash that is received throughout the day from customers. Customers also have the option of cashing money orders at some financial institutions. Additionally, many money orders are sent to billers for payment of accounts, who then deposit money orders into their accounts.

Postal officials report that revenues from Domestic Money Orders were $189.7 million in FY 2009, and $182 million in FY 2010. Revenues for Domestic Money Orders have declined 11 percent since FY 2005 (which showed revenue of $205.9 million). Since costs for domestic and international money orders are combined, and

cash (office would need to keep a higher level of cash to fund the carrier), and money order fraud since rural carriers would most likely not have access to the interactive voice recognition phone system (IVR) used to validate money orders prior to cashing."
international money transfer services are competitive products, information on postal costs of Domestic Money Orders is not made publicly available.

2. International Money Orders

The Postal Service also offers international money orders for up to $700. The fee for International Money Orders is $3.85. IMOs can then be mailed using First-Class Mail International or Express Mail International. The money orders can be cashed at the post offices in the destination country. There is no limit on the number of money orders that may be sent to a payee during any time period. There is a limit on the total face value of money orders a single customer may purchase in any one day (see IMM 371.1).

International postal money orders are exchanged with 30 countries using a UPU International Postal Money Order (Form MP1). The following countries accept this form:

<table>
<thead>
<tr>
<th>Countries Accepting the International Postal Money Order Form (MP1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The maximum amount for a single postal money order is $700 unless noted.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Albania</th>
<th>Dominica</th>
<th>Mali</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anguilla</td>
<td>Dominican Republic</td>
<td>Mexico</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>Ecuador</td>
<td>Montserrat</td>
</tr>
<tr>
<td>Bahamas</td>
<td>El Salvador ($500)</td>
<td>Peru</td>
</tr>
<tr>
<td>Barbados</td>
<td>Grenada</td>
<td>Saint Christopher and Nevis</td>
</tr>
<tr>
<td>Belize</td>
<td>Guinea</td>
<td>Saint Lucia</td>
</tr>
<tr>
<td>Bolivia</td>
<td>Guyana ($500)</td>
<td>Saint Vincent and</td>
</tr>
</tbody>
</table>
To the consumer, the processing requirements for an International MO are the same as those for a Domestic Money Order, except that UPU Form MP1 is used. See IMM 371.2. Money orders may be made payable to the purchaser (either a person or a firm) or to a payee by official title. A valid, unexpired postal money order issued by any of the countries listed above may be cashed at any USPS post office under the procedures for cashing domestic money orders (see DMM 503.14).

Special regulations prevent Postal Service employees from disclosing information concerning money order transactions to any person except the purchaser, the payee, the endorsee, or a duly authorized agent of one of these. The Postal Service has also implemented effective anti-money laundering controls for all of its money transfer services. These controls include provisions for ensuring both dollar-threshold and suspicious activity reporting, as well as OFAC monitoring. The BSA/AML/OFAC automated controls were designed and developed to accommodate changes, enhancements, and expansion of the various financial services, including the use of cyber technology (mobile devices, etc.) and expanded use of APCs. Postal officials informed us that there have not been widespread problems reported of persons using false identification to redeem money orders. Fraud may occur in the form of

<table>
<thead>
<tr>
<th>British Virgin Islands</th>
<th>Honduras</th>
<th>Grenadines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>Jamaica</td>
<td>Sierra Leone</td>
</tr>
<tr>
<td>Cape Verde</td>
<td>Japan</td>
<td>Trinidad and Tobago</td>
</tr>
</tbody>
</table>
counterfeiting postal money orders, raising or altering dollar amounts of legitimate money orders, and money laundering/tax evasion through the use of money orders

International Money Transfer Services are competitive products, and information on USPS revenue and cost is not disclosed publicly. Postal officials report that revenue for both products has declined in the last 5 years.

3. Dinero Seguro—Electronic Money Transfer to Latin America

Dinero Seguro® (Sure Money®) is a service provided at certain Post Office locations for customers to electronically transfer money to individuals or firms in certain Latin American countries. Funds are transferred to participating banks or other approved agents in Latin America, where payees can claim them. Funds are guaranteed to transfer in 15 minutes, and a currency conversion rate is provided to the sender at the time of purchase.

The maximum purchase per day under the program is $2,000.00. Regardless of the amount of money sent, the payee must present a valid photo ID, as well as a valid confirmation number that is provided to the sender at the time of purchase. For a fee and with valid photo ID, the sender may change the name of the payee or request a refund if for any reason payout in the destination country was unsuccessful.

Fees for Dinero Seguro are:

68 The sender may receive a refund of the sale fee if the transaction arrives at the payout agent after the 15-minute guarantee period.

<table>
<thead>
<tr>
<th>Transaction Type</th>
<th>Minimum Amount</th>
<th>Maximum Amount</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$0.01</td>
<td>$750.00</td>
<td>$10.00</td>
</tr>
<tr>
<td></td>
<td>$750.01</td>
<td>$1,500.00</td>
<td>$15.00</td>
</tr>
<tr>
<td></td>
<td>$1,500.01</td>
<td>$2,000.00</td>
<td>$20.00</td>
</tr>
<tr>
<td>Refunds</td>
<td>$0.01</td>
<td>$2,000.00</td>
<td>$25.00</td>
</tr>
<tr>
<td>Change of Payee</td>
<td>$0.01</td>
<td>$2,000.00</td>
<td>$10.00</td>
</tr>
</tbody>
</table>

Dinero Seguro is available at 2,800 post office locations in areas with high concentrations of Hispanic immigrants. Countries currently participating in Dinero Seguro are:

a. Argentina.
b. Colombia.
c. Dominican Republic.
d. Ecuador.
e. El Salvador.
f. Guatemala.
g. Honduras.
h. Mexico.
i. Nicaragua.
j. Peru.

Postal Service filings describe the underlying partnership for Dinero Seguro and future plans: "[The program] operates through a strategic alliance with Bancomer..."
Transfer Service. The Postal Service collects the name of the recipient and sender, the amount of funds to be sent, and the funds and service fee (shared between the Postal Service and Bancomer); generates a receipt showing the amount of currency to be paid to the recipient; and provides the data to Bancomer to complete the transaction. Dinero Seguro has been listed in the proposed MCS under the heading of International Money Transfer Service (IMTS). The Postal Service intends to expand the number and types of service offerings under this heading to include both inbound and outbound services to other countries, under any one of a number of platforms and structures. The Postal Service is examining options to partner with both private sector partners and foreign postal administrations that are signatories to the Universal Postal Union Postal Payment Services Agreement. The Postal Service's ultimate aim is to offer broader reach in terms of territories served, as well as an array of service options to customers."

The USPS rates for its money transfer services are competitive in the industry:

<table>
<thead>
<tr>
<th>Provider</th>
<th>Domestic Money Orders</th>
<th>International Money Orders (Hard Copy)</th>
<th>Electronic International Money Transfer&lt;sup&gt;71&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>USPS</td>
<td>Up to $500 - $1.10</td>
<td>$3.85</td>
<td>Up to $750: $10.00</td>
</tr>
<tr>
<td></td>
<td>$500-$1000 - $1.50</td>
<td></td>
<td>$750-$1500: $15.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$1500-$2000: $20.00</td>
</tr>
<tr>
<td>Western Union</td>
<td>Varies by Retailer</td>
<td>Varies: $1 to $5</td>
<td>Approx. $14.00</td>
</tr>
<tr>
<td>MoneyGram</td>
<td>Varies by Retailer</td>
<td>Varies: $0.50 to $1</td>
<td>Approx.$12.75</td>
</tr>
</tbody>
</table>

4. **Stored Value Cards**

The Stored Value Card, as that term is used by the Postal Service, is a prepaid card that may be either open or closed loop and for a specified amount or reloadable. The Postal Service offered Stored Value Cards (SVCs) prior to 2006, and included Stored Value Cards in its 2008 application to the Postal Regulatory Commission to provide nonpostal services, but permission to offer SVCs was denied.<sup>72</sup> In January, 2011, the Postal Service filed a notice with the Commission of a market test of experimental gift cards, a type of Stored Value Card.<sup>73</sup>

The Postal Service first offered Stored Value Cards beginning in 1995 with the Liberty Cash Card, a re-loadable stored value card for the purchase of Postal Service

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<sup>71</sup> Money Transfer pricing varies by corridor and amount. The chart reflects fees for remittance amounts equaling approximately $300.

<sup>72</sup> See Section V.C, *infra*.

<sup>73</sup> See n. 87, *supra*, discussing the Postal Service's recent Notice of Market Test of Experimental Product-Gift Cards, in Docket No. MT2011-2.
products and services. The card was administered by ValueLink, a subsidiary of First Data and was sold at 2,700 locations. The idea of stored value cards was not well understood in the marketplace and customer adoption was very low. The card was discontinued due to high costs and little benefit at the time. The Postal Service suspended the product at the end of FY 2003 due to declining usage of the card. The Postal Service also offered a prepaid phone card, the First Class Phone Card, from December 1997 until October 2006, through an alliance with AT&T. It was offered in domestic and international versions. After several successful years, as the phone card market declined with the introduction and rapid growth of cell phones, it no longer made economic sense for the Postal Service to continue to offer these cards. Although the Postal Service at one point attempted to characterize this phone card as a general "stored value card," the Commission in Docket MC2007-1 drew a distinction between general purpose stored value cards and closed loop phone cards.75

B. The Social Value of USPS' Current Money Transfer Services

Sections II and III of this Study provide the basis for finding that the unbanked need money transfer services and that the provision of these services—by a secure, trustworthy, and affordable provider—benefits society. The money transfer services of

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the Postal Service do just that, albeit on a limited scale. The unbanked avail
themselves of the Postal Service's money transfer services to send hundreds of millions
of dollars each year. Many prefer to go to a local post office rather than a bank because
they consider it conveniently located, familiar, comfortable, and trustworthy. The Postal
Service also sets fees at affordable rates. The Postal Service thus benefits society
through its provision of safe, convenient, and affordable transaction services to the
unbanked.

The amount of this social benefit is commensurate with the volume of transaction
services the Postal Service actually provides. Although the Postal Service’s exact
market share for these services is not publicly available, the Postal Service likely has
several opportunities to expand its offerings to the unbanked. In light of the immense
needs of the unbanked, the Postal Service could dramatically increase the social benefit
it provides (and its revenue streams) by expanding its money transfer services to the
unbanked. The following section focuses on these opportunities and the legal issues
they present.
V. OPPORTUNITIES AND LEGAL CONSIDERATIONS RELATING TO EXPANDING USPS' MONEY TRANSFER SERVICES FOR THE UNBANKED

Before discussing opportunities, we provide an international perspective on postal financial services to the unbanked and review how other posts have reached out to the unbanked since 2001. Even though the U.S. Postal Service operates under different legal restraints, serves a larger geographical area, and handles a much greater volume of mail than any other country, the experiences of international posts that have expanded services to the unbanked are instructive.

A. The Experience of Other Posts in Providing Services to the Unbanked

As noted, the posts in other countries generally do not operate under as strict legal restraints as the U.S. Postal Service. Since 2001, financial services to the unbanked offered by international posts (and the resulting benefits to the unbanked in those countries) have grown dramatically. From 2001 to 2008, total nominal revenues generated by postal financial services in the world (not including Japan) increased by 11 percent (CAGR), from SDR 14.1 billion to SDR 29.1 billion. The growth in market share of postal retail banking has been greater in emerging and developing countries, such as Brazil, India, and China, than in more advanced economies (8.3 percent vs. 2.6

percent CAGR). Postal financial institutions throughout the world handle 19.2 percent of retail bank accounts, usually attracting low-income depositors.\textsuperscript{77}

The contribution of postal financial services to overall postal revenues of international posts grew from 15 percent in 2001 to 22 percent in 2008. In 2001, 112 postal operators offered postal financial services; in 2008, that number increased 19 percent to 133. In 2001, only 32 posts had a share of postal financial services higher than 20 percent of their total revenue; in 2008, 44 posts had at least a 20 percent share. In 2001, four posts had more than half of their postal income generated by financial services; in 2008, 15 posts had more than 50 percent of their postal income generated by financial services.\textsuperscript{78}

Commentators have identified two trends that have contributed to the growth in international postal financial services: First, declines in mail volumes have forced posts to look beyond the traditional postal business model and diversify into areas that take advantage of customer trust and the postal retail and delivery infrastructure. Second, foreign governments' concern for the unbanked, especially in emerging and developing countries, have resulted in "financial inclusion" policies that rely on the posts for the first step in the formalization of financial exchanges in relatively deprived communities.\textsuperscript{79}

\textsuperscript{77} Id. at 3-5.
\textsuperscript{78} Id. at 4-5.
\textsuperscript{79} Id. at 2, 9.
Formalizing the economy in an emerging country is necessary for the development of governmental systems for social payments, social security, and national safety.

The business models for international postal banks vary widely. They range from providing a full-fledged postal bank and micro-credit (China) to offering only one type of service, processing cash transactions (Russia); from working with one exclusive partner (Brazil) to working with many partners in addition to developing the post's own accounts (India).

One example of a postal banking model with limited financial services is the Russian Post. Historically, considerable political opposition prevented establishment of a Russian Post Bank because the Russian Central Bank was the main shareholder of Russia's largest bank. As a result, the Russian Post was allowed to handle only payment services. The Russian Post provides payment services without using banking partners. Most payments are cash transactions that must be handled at the retail counter or by the letter carrier in order to receive pension benefits or pay utility or other monthly bills. The Post's 80 percent share of payment services has been shrinking since the introduction of private electronic kiosks for automated payments. The Post does not currently handle deposits or checking/savings accounts; however, several government officials have called for the creation of a Russian Post Bank, primarily to

\[80\] *Id.* at 9.
reach unbanked households. More than half of the population in Russia remains unbanked.\textsuperscript{81}

It is likely that the provision of financial services by international posts to the unbanked will continue to grow for some time. Industry experts have determined that there is a potential market of 1.1 billion account holders that the posts could still reach.\textsuperscript{82}

\section*{B. Opportunities to Expand Money Transfer Services}

While several international posts have moved quickly to provide services to the unbanked—with generally positive financial results—offerings of the U.S. Postal Service to the unbanked in the U.S. have been more limited.\textsuperscript{83} Money transfers handled by the Postal Service are a tiny fraction of the market (\textit{i.e.}, while the Postal Service may handle annual transfers of hundreds of \textit{million} dollars, total money transfers are estimated to be in the hundreds of \textit{billion} dollars, not including "informal" transfers). The Postal Service could expand its money transfer products in several ways, all of which would benefit the unbanked and possibly improve the Service's bottom line. The Postal Service could, for example:\textsuperscript{84}

\begin{itemize}
  \item \textsuperscript{81} \textit{Id.}
  \item \textsuperscript{82} \textit{Id.} at 6.
  \item \textsuperscript{83} See discussion of possible legal obstacles in the following subsection.
  \item \textsuperscript{84} Postal officials have informed us that the Postal Service is re-evaluating its existing money transfer business focusing on generating new revenue, including electronic domestic money transfer services. "Details cannot be provided at this time due to the sensitivity of the evaluation process . . . . We are exploring expanding the financial services offerings, including an opportunity to offer bill payment services. . . . Additionally, we are considering offering a stored value card that could be used for postal
• Expand domestic money orders to include both hard copy and electronic formats.

• Expand international money orders to include both hard copy and electronic formats.

• Expand Dinero Seguro, offering electronic money orders in more U.S. post offices to be sent to more Latin American countries or even countries in South and East Asia, such as the Philippines\textsuperscript{85}; increase awareness of the product among the unbanked.

• Offer money transfers for bill payments, similar to Wal-Mart’s bill payment services.

• Provide online information and access to money transfer products on usps.com, and eventually through a mobile phone app.

• Implement as appropriate in-person identity verification procedures at post offices to minimize security and money laundering concerns or offer such verification services to other AFS providers.

• Partner with federal and state government agencies to enable benefit payments to be loaded onto open loop USPS cards as part of the e-government initiative, \textit{e.g.}, Social Security payments and IRS refunds.\textsuperscript{86}

\textsuperscript{85} See \url{http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MigrationAndDevelopmentBrief11.pdf} at 2 on recent growth of remittance flows to the Philippines, Bangladesh, and Pakistan.

\textsuperscript{86} The federal government has already begun transitioning to electronic payments using private companies. The Postal Service has at least one advantage—it has the infrastructure already in place to provide identity verification services in post offices to prevent fraud. Postal officials have informed us that “several federal agencies and states have approached the Postal Service to explore leveraging the postal
• Partner with one or several financial institutions to offer Prepaid Cards (e.g., Stored Value Cards). Although the Postal Service may not have expertise in this area, it brings to the table a strong brand, customer trust, an already established customer base in rural and low income areas, centrally located retail outlets, the capability to handle in-person identity verification (such as those required for passport applications), and established relationships with other UPU postal banks.

• Reconfigure Automated Postal Centers to handle electronic money transfer services, including cash withdrawals from prepaid cards.

• In the longer term, build upon its experience with the redemption of money orders to explore check cashing products.

The Postal Service is well positioned to meet the needs of the unbanked for a reliable, trustworthy, convenient, and affordable provider of money transfers in the retail network for some types of in-person identification services. It is not clear that the Postal Service can establish inter-agency agreements beyond these type agreements with the federal government.”

87 On January 5, 2011, the Postal Service submitted a "Notice of Market Test of Experimental Product - Gift Cards," under 39 U.S.C. 3641(c), filed in Docket No. MT2011-2. As required for an experimental product, the duration of the proposed market test would not exceed 24 months, and annual revenues received by the Postal Service from this test are not anticipated to exceed $10,000,000 in any fiscal year. This Study does not take a position on any issues relating to Docket No. MT2011-2, and the discussion in following subsection on Stored Value Cards in general is not directed to the specific product proposed in Docket No. MT2011-2.

88 Whether AML regulations would apply in full force for such public-private partnerships or could be modified by use of in-person verification procedures should be explored.

89 For example, 7-Eleven has automated kiosks that provide money transfer services. We were informed that the current generation of postal APC's are not capable of handling money transfers; however, as designs for a second generation get underway, it may be prudent to consider adding such capability.
billions of dollars. Whether the Postal Service or private companies provide these services is an open question. Post offices are conveniently located in every neighborhood across the nation, and it is likely that many unbanked persons already frequent their post offices for international remittances or other postal services. The Postal Service is also the most trusted federal agency, charges affordable fees, and provides reliable, universal mail service, making it a familiar, non-threatening place for the unbanked to conduct financial transactions. While mainstream banks and AFS providers may oppose increased competition from postal products, it is also possible that they may seek to partner with the Postal Service and capitalize on the advantages the Postal Service can bring to the table. In any event, the Postal Service should explore business partnerships, as it has in the past, with both banks and reputable non-banks, to expand its money transfer offerings. Whatever arrangements result, changing technology and high growth rates in the AFS market\(^90\) make timely and decisive action by the Postal Service an imperative.

**C. Legal Considerations**

Unlike posts in other countries, the Postal Service is prohibited from offering "nonpostal services." Under the Postal Accountability and Enhancement Act of 2006 (PAEA), the Postal Service may offer only "postal services," which are defined as “the delivery of letters, printed mater, or mailable packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto.” 39 U.S.C. § 102(5). If a service relates to the carriage of mail or if it serves “other functions ancillary” to the

\(^90\) See Sections III.C and D, *infra.*
carriage of mail, it may be classified as a postal service. PRC Order 154, Docket No. MC2008-1, at 30.

The term “ancillary” means auxiliary, subordinate, or subsidiary. In Docket No. R76-1, the Commission adopted the following standard for ancillary or special services:

Special postal services — that is, those which fall within the ambit of § 3622 — are services other than the actual carriage of mail but supportive or auxiliary thereto. They enhance the value of service rendered under one of the substantive classes by providing such features as added security, added convenience or speed, indemnity against loss, correct information as to the current address of the recipient, etc.


In Associated Third Class Mail Users v. U.S. Postal Service, 405 F. Supp. 1109 (D.D.C. 1975) (ATCMU), the Court of Appeals provided further insight in deciding whether certain special services were jurisdictional:

It is clear that nearly all of these other services are very closely related to the delivery of mail. The single possible exception is the selling of money orders, since they can be used equally as well without being delivered by mail. But it does seem that the vast majority of money orders sold at post offices are actually sent by mail. Therefore it appears safe to say that all of these services would be considered ‘postal services’ in ordinary parlance.

ATCMU at 1115 (emphasis added).

The question is whether the new products described in the previous section are allowable "postal services." If instead they must be classified as "nonpostal services," then they are allowable only if they fall under the grandfathering provisions of the PAEA.
or have separate statutory authorization (such as services provided to other government agencies under 39 U.S.C. § 411).

Prior Commission decisions offer guidance on whether certain money transfer products, made available to the unbanked, fall within the definition of "postal services." First, as noted in the passage quoted from ACTMU, domestic money orders have long been considered permitted postal services, a finding recently confirmed in Order 154 of Docket No. MC2008-1.

Second, in Docket No. MC2008-1, the Commission has already found that International Money Transfer Services offered through postal networks should be classified as postal services. It reasoned that hardcopy international money orders were the counterpart of domestic money orders. "Domestic money orders have long been classified as a postal service . . . . On balance, given the Postal Service’s extensive history in providing remittances to customers, the unique role that postal administration may serve in this area, and that IMTS offered through postal networks is ancillary to hardcopy postal services, the Commission is persuaded that IMTS should be classified as a postal service." Order 154 at 77.91

Third, the Commission specifically addressed whether a distinction should be drawn between electronic and hard copy money transfers: "IMTS [such as Dinero Seguro] uses modern technology to extend and enhance the service that has been

91 The Commission did not refer to or rely upon section 408 of title 39, which dates from the 1970 Postal Reorganization Act (PRA), and allows the Postal Service to "make arrangements with other governments . . . for the exchange of sums of money by means of postal orders."
provided for many years. *It would seem needlessly short-sighted to restrict the service solely to hardcopy form, one long recognized as a postal service, when the electronic alternative has long been provided and serves the same function.*" Order 154 at 38.

The Commission referenced the testimony of USPS Witness Pranab M. Shah, then-executive director of global business strategy and technology: "Shah believes that electronic IMTS complements Postal Service offerings, benefits from its core competencies, and fits within the existing product portfolio . . . . Among other things, he asserts that the existing retail infrastructure is in place to provide electronic IMTS. He also believes that electronic IMTS can contribute to global economic and social development by providing a vehicle for remitting funds securely and efficiently through the global postal infrastructure. Lastly, he states that electronic IMTS promotes mailing activities, noting that inbound electronic transfers may be paid out in domestic money orders, which may be mailed." *Id.* The Commission recognized "the unique role that postal administration may serve in this area," noting "In addition, [Mr. Shah] discusses UPU initiatives to expand electronic IMTS . . . . Shaw stated that "niche players in the electronic IMTS market, *posts may serve important public policies by providing services to underserved populations and contributing to global economic and social development.*" *Id.* at 38 and n.77 (emphasis added).

On the basis of these Commission findings, one could conclude that the following would all be permissible: expansion of domestic money orders to include both hard
copy and electronic money orders, expansion of international money orders to include both hard copy and electronic money orders, and expansion of the Dinero Seguro program to offer electronic money orders in more U.S. post offices to be sent to more Latin American countries. One could also argue that it is logical to classify as a postal services electronic bill payment—a form of money transfer similar to an electronic money order.

On the other hand, the Commission has followed a different approach in reviewing the Stored Value Card (SVC), a type of prepaid card for money transfers. In Docket MC2008-1, the Commission denied the Postal Service’s request to continue to offer Stored Value Cards, but based its rejection on the PAEA's grandfathering provisions, without deciding whether the SVC was a postal service. In fact, the Commission specifically left open the possibility of a future application by the Postal Service to offer Stored Value Cards.

In Docket MC2008-1, instead of presenting the SVC as a type of money transfer based on modern technology, the Postal Service had assumed that the SVC was a nonpostal service and had relied upon the grandfathering provisions in the PAEA for authorization. Under those provisions, the key dates for grandfathering were December

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92 It is settled law that international money orders are classified as postal services—whether they are sent by hard copy or electronically. There is no logical reason to treat domestic money orders differently. Domestic money orders should thus continue to be classified as postal services—whether they are sent by hard copy or electronically.

93 See Section IV, A,1, supra, which describes how money orders may be redeemed. Postal officials indicated that many money orders are sent to billers for payment of accounts, which then deposit the money orders into the customer accounts. There is little functional difference between a hard copy money order sent to a utility company and a money order sent electronically to pay a utility bill.
20, 2006, and January 1, 2006. The Commission found that the key dates had not been triggered and denied the Postal Service permission to continue offering SVCs.94

The most telling aspect of this decision is the Commission's footnote 14. "Lance comments that the Commission might find stored value cards to be a postal service. Lance Statement at 10, n.6. On this record, that conclusion cannot be reached. The finding that stored value cards, as proposed, may not be grandfathered does not foreclose the possibility of the Postal Service offering a card that may, if properly supported, be classified as a postal service." Order 154 at 47 n. 90. The door was left open for the Postal Service to propose a Stored Value Card structured as a postal service.

A Stored Value Card could be classified as a postal service if it were structured to function as an updated, more convenient version of the already authorized hard copy and electronic money order.95 As the ACTMU court found, the fact that the Stored Value Card can "be used equally as well without being delivered by mail" is not dispositive. Nor is it dispositive that the SVC relies on digital encoding rather than hard

94 "The record is clear that the Postal Service was not offering a stored value card as of January 1, 2006, having 'suspended' the Liberty Cash product in 2003. Thus, the Commission finds that the proposed stored value card is not eligible for grandfathering and thus may not be authorized under 39 U.S.C. § 404(e). While the Postal Service did offer pre-paid phone cards as of January 1, 2006, it was not offering them as of December 20, 2006, having terminated that product in October 2006. Id. at 8. Thus, as a technical matter, pre-paid phone cards are not subject to this review. . . . In any event, Lance’s Statement is offered in support of a different product, a generic stored value card. Thus, even if the issue of pre-paid phone cards was before the Commission, the Postal Service has provided no record support of the public need for that product. Without that showing, there is no basis on which the Commission could authorize its continuance." Order 154 at 47-48.

95 This hypothetical analysis is not intended to reflect any legal position on the issues raised in Docket No. MT2011-2, in which the Postal Service has proposed a market test for a particular type of gift card. See note 87, supra.
copy: Order 154 recognized the peril of form over function and extended equal treatment to hard copy money orders and electronic money orders: "It would seem needlessly short-sighted to restrict the service solely to hard copy form, one long recognized as a postal service, when the electronic alternative has long been provided and serves the same function." And the fact that the SVC requires different behind-the-scenes processing from that used for money orders should not be a determining factor; in the past, the Commission has not been concerned with differences in behind-the-scenes processing between domestic and international or hard copy and electronic money transfers.96 Two factors that the Commission might consider—because they are related to function rather than form—are (a) whether the card is an open loop or closed loop prepaid card; and (b) whether it is intended for a one-time use or reloadable.

Separately, a Postal Service Stored Value Card that was loaded with IRS tax refunds or government benefits, such as monthly Social Security, Black Lung Disability, Veteran's Retirement, and Railroad Retirement payments, could be authorized under Section 411 of title 39. That section states, "Executive agencies . . . are authorized to furnish property, both real and personal, and personal and nonpersonal services to the Postal Service, and the Postal Service is authorized to furnish property and services to them." While this section dates from the 1970 PRA, the restrictions on nonpostal services added by the 2006 PAEA were not intended to apply to "services" that are not "commercial". The U.S. Court of Appeals for the District of Columbia Circuit has noted 96. To the extent that SVC is considered a postal service, it is possible that the use of Automated Postal Centers (APCs) to load SVCs would also be allowable.

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that "several revenue-generating activities—including . . . services provided to government agencies—did not qualify as 'services' under the PRC’s definition and, therefore, were not subject to the Commission's review."97 Services to other government agencies under section 411 are thus not subject to review as nonpostal services and could be implemented as soon as the Postal Service reached an agreement with the federal agency on "terms and conditions, including reimbursability."  

Id. Government services could include cashing of government checks or SVCs, transfers of funds received from government payments, or loading of government SVCs at post offices, APCs, or through letter carriers. Many recipients of these government services may be members of the unbanked population, and providing convenient and safe access to government services at local post offices would be an added benefit to society.

VI. CONCLUSION

There is little question that the Postal Service's money transfer services provide a social benefit to the nation. The unbanked and underbanked, who are often low-income or minority households, benefit from access at local post offices to affordable money transfer services, both domestic and international. Yet the size of the unbanked population continues to grow, and the Postal Service's current offerings are limited. We recommend that the Postal Service expand its existing money transfer products to both hard copy and electronic formats and also investigate opportunities to offer related transaction services to the unbanked, such as Bill Payment services, Stored Value Cards, or Government Benefit Prepaid Cards. The Postal Service should actively explore partnerships with established financial institutions, large AFS providers, government agencies, and postal banks of other countries. Because this Study focuses primarily on public policy issues, additional research may be needed to address other aspects of money transfer services, including financial considerations (e.g., potential revenues, costs, and risks), marketing strategies (e.g., consumer education, demographics, regional offerings), and legal issues (e.g., nonpostal services restrictions) for each new product to serve the unbanked.