

USPS Money Transfer Services for the Unbanked

March, 2011

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Overview

- ▶ Government concern for the needs of the unbanked
- ▶ Social Benefit provided by existing USPS products
 - ▶ Description of USPS money transfer services
- ▶ Opportunities
 - ▶ Size and potential of the Alternative Financial Services market
 - ▶ Domestic transaction services
 - ▶ International money transfer services
 - ▶ Growing interest of mainstream banks
 - ▶ Experience of other posts
 - ▶ New initiatives to explore
- ▶ Legal considerations

Unmet needs of the unbanked

- ▶ 9 million households are unbanked (7.7%) and growing
- ▶ 21 million are underbanked (17.9%)
- ▶ Definition of “unbanked” and “underbanked”
- ▶ Who are the unbanked?
 - ▶ Minority
 - ▶ Low income
- ▶ Why are they unbanked?
 - ▶ Convenience, cost, do not trust or feel comfortable in banks
- ▶ What services do the unbanked need?
 - ▶ Transactions (money transfer, check cashing, bill payment)
 - ▶ Credit (payday loans, RAL, RTO, pawnshops)

Efforts to reach the unbanked

- ▶ **FDIC Surveys, studies, and Safe Accounts Program**
 - ▶ Sheila Bair's initiatives
- ▶ **State and community efforts**
- ▶ **Limited transaction services offered by mainstream banks**
 - ▶ 73% of banks aware of unbanked population in their service area but only 18% were reaching out to them.
 - ▶ Only 37% offered bank checks and MOs to non-customers
 - ▶ Only 6% offered international remittances to non-customers
 - ▶ More branch closings in low income areas
 - ▶ Charged non-customers significantly higher fees
 - ▶ Recent increase in banks' interest.

Social benefit of USPS money transfer services for the unbanked

▶ **Current products**

- ▶ Affordable domestic Money Orders (hard copy)
- ▶ International Postal Money Orders (hard copy)
- ▶ Dinero Seguro to selected Latin American countries (electronic)

▶ **Social benefit**

- ▶ Post offices are conveniently located, familiar, safe, and trustworthy, and services are affordable.

▶ **Potential expansion**

- ▶ Electronic domestic Money Orders
- ▶ Expansion of Dinero Seguro
- ▶ Electronic international Money Orders

▶ **Prepaid cards (stored value cards, gift cards)**

Alternative Financial Services

- ▶ **Growing AFS market: over \$320 billion reported (2007)**
 - ▶ Transaction services: \$93 billion (FiSCA) - \$160 billion (FDIC)
 - ▶ Growth in international remittances
 - ▶ 2004: \$40 billion to Latin America with \$30 billion from USA
 - ▶ 2011: expected \$300 billion, almost all outside banking system
 - ▶ Western Union and MoneyGram chief beneficiaries
 - ▶ Bank of America, Wells Fargo, and Citigroup
 - ▶ Identification issues: US Patriot Act, Matrícula Consular, money laundering
- ▶ **Future of AFS – Timing issues**
 - ▶ Mobile banking
 - ▶ Prepaid cards

Prepaid cards

- ▶ Open v. closed loop
- ▶ Fixed amount or loadable
- ▶ Distinct from gift cards and debit cards
- ▶ Types of cards: payroll, financial services, government benefits, Green Dot
- ▶ Expected growth from \$25 billion to \$100 billion (2014)
- ▶ USPS' Stored Value Cards: prepaid phone cards and Liberty Cash Cards
- ▶ PRC's nonpostal services order in MC2008-1

Experiences of other posts

- ▶ 11% increase in total revenues from postal financial service from 2001-2008
- ▶ Increase from 4 to 15 in number of posts that had over 50% of their postal income generated by financial services
- ▶ Reasons for growth: decline in mail volume; “financial inclusion” policies; no PAEA-type restrictions.
- ▶ Range of business models:
 - ▶ From full fledged postal bank (China) to cash transactions (Russia)
 - ▶ One exclusive partner (Brazil) to many partners (India)
- ▶ Potential market of 1.1 billion additional account holders.

Opportunities

- ▶ Expansion of current money transfer services to include both hard copy and electronic formats at all POs and to all locations
- ▶ Money transfers for bill payment
- ▶ Online information and access to money transfer services
- ▶ Offer identity verification procedures
- ▶ Prepaid cards for government benefits and tax refunds
- ▶ Reconfigure APCs
- ▶ Certain types of prepaid cards
- ▶ Limited check cashing services

Legal considerations

- ▶ “Nonpostal services” -- section 404 (e)
- ▶ “Other functions ancillary thereto” -- section 102(5)
- ▶ Order 154 of MC2008-1 left door open
 - ▶ Money orders are postal services. *ATCMU*
 - ▶ Rejection of “form over function”
- ▶ Government benefits cards -- section 411

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