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, Matricula 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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