



Digital Currency: Opportunities for the Postal Service

October 3, 2011

**Prepared by U.S. Postal Service Office of Inspector General
Risk Analysis Research Center
Report Number: RARC-WP-12-001**

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Executive Summary

Digital technologies, e-commerce, and financial innovation have revolutionized the way individuals, businesses, and institutions conduct their financial transactions. Cash is losing its primacy as the most widely used payment method, now increasingly displaced by “digital currency” — a set of innovative, more practical, and convenient tools to store and transfer money electronically, including electronic fund transfers, Internet payments, payment cards (credit, debit, and prepaid), and mobile payments.

Despite clear benefits, the digital economy is not without shortcomings. Most electronic payment tools require users to have a bank account or credit card. This means that people without access to mainstream banking services are likely to be excluded from the benefits of digital currency. These unbanked and underbanked individuals¹ — low-income families, new immigrants, the unemployed, and the non-creditworthy — typically do not have many payment options other than cash and checks. Because they lack bank accounts, they turn to high-fee alternative financial providers to pay bills, transfer money, or cash checks. Further, some individuals are starting to be paid with digital currency and face predatory fees when exchanging these payments.

In its paper *The Postal Service Role in the Digital Age Part 2: Expanding the Digital Platform*,² the U.S. Postal Service Office of Inspector General (OIG) Risk Analysis Research Center (RARC) mentioned the “insufficient availability of affordable digital currency for unbanked consumers” among the challenges characterizing the digital marketplace. It also suggested that opportunities might exist for the Postal Service to address this challenge by expanding its role as a provider of electronic currency transactions to underserved markets in the form of prepaid cards.

This paper expands the analysis of the electronic payment landscape by evaluating the opportunity for the Postal Service to expand its offering of money transfer services with prepaid cards. The paper presents the following highlights:

- Prevailing trends reveal a clear shift toward electronic payments. While debit and credit cards are the most used non-cash payment tools, prepaid cards are the fastest growing both in terms of volume and transaction value.

¹ “Unbanked” refers to individuals or households without a checking or savings account. “Underbanked” refers to individuals or households who have a checking or savings account but rely on alternative financial services.

² U.S. Postal Service Office of Inspector General, *The Postal Service Role in the Digital Age Part 2: Expanding the Digital Platform*, Report No. RARC-WP-11-003, April 19, 2011, http://www.uspsoidg.gov/foia_files/RARC-WP-11-003.pdf.

- While the use of prepaid cards is spreading rapidly, the prepaid card market has limitations in both reach and accessibility. For this reason, the need for affordable access to digital currency remains largely unfulfilled.
- These gaps together with the booming demand for prepaid cards represent an opportunity for the Postal Service. Given its widespread network, trustworthy reputation, and longstanding experience in providing payment services, the Postal Service could expand its money transfer services by offering prepaid cards to bridge the gaps that cannot be easily filled by the private sector and ensure that unbanked people are not left behind in an increasingly digital economy.
- Promoting the financial inclusion of the unbanked and underbanked population could be an important part of the traditional Postal Service's mission of "binding the nation together." Embracing new payment technologies to adapt its products and services to the changing needs of these customers would be the natural evolution of its role.
- Prepaid cards might be classified as a postal service and authorized under the current postal law if provided as a complement and an extension of existing money transfer services or if offered to federal agencies to facilitate the payment of social benefits to unbanked citizens.
- Integrating the functionality of a prepaid card into the existing money transfer process would allow the Postal Service to develop new, innovative wire transfer options and leverage the latest mobile and electronic payment technologies.
- Some foreign posts have already launched prepaid card services successfully. For example, the Italian Post is the leader in the Italian prepaid card market. Its low-cost prepaid card services generated revenues of \$124 million in 2010, or about 2 percent of total revenues from financial services.

This paper also recommends the foundation of an implementation strategy. One critical element of implementation is for the Postal Service to partner with one or more leading providers in the money transfer and payment card market and capitalize on their "know-how," technology infrastructure, and network. A second element is to start with the offer of prepaid card-based money transfer services to the unbanked and the federal government. A third element is to minimize cost and maximize the efficiency of post office window operations. This will allow the Postal Service to offer prepaid card services at affordable, competitive prices. A fourth element is to promote large-scale, multilingual promotional campaigns and provide informational material and customer assistance at post offices. At the same time, the Postal Service could create new or expand existing service access channels, such as kiosk stations and the USPS.com website. A final element is to integrate the prepaid card payment functionality into any future digital platform that secures electronic communications and transactions.

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Digital Currency: Opportunities for the Postal Service

Introduction

The Changing World of Payments: The Shift to Digital Currency

Digital technologies and e-commerce have completely revolutionized the way individuals, businesses, and institutions conduct their financial transactions. Cash is losing its primacy as the most widely used payment method, now increasingly displaced by “digital currency” — a set of innovative tools to store and transfer money electronically, including electronic fund transfers, Internet payments, payment cards (credit, debit, and prepaid), and mobile payments.

Cash is losing its primacy...and is increasingly displaced by “digital currency.”

The increased efficiency and lower costs characterizing digital currency have made it an attractive option for both providers and customers. As a result, the electronic payment market is rapidly expanding. New non-bank intermediaries have entered the market, attracted by its high growth potential and relatively low barriers to entry. Businesses and governments are looking to move their transactions to the digital channel to save on processing costs. Consumers see digital currency as more practical, potentially safer, and less expensive than cash or checks, while providing an indisputable proof of transaction.

Yet despite the rise of digital currency and its benefits, there are downsides. The most significant shortcoming is that most of the electronic payment channels still require a

People without access to mainstream banking services are likely to be excluded from the benefits of digital currency.

bank account or payment card. This means that people without access to mainstream banking services are likely to be excluded from the benefits of digital currency. These “unbanked” — low-income families, new immigrants, unemployed, non-creditworthy individuals — typically do not have many payment options other than

cash and checks and, because they do not have bank accounts, turn to high-fee alternative financial providers to pay bills, transfer money or cash checks.

Recently, a new category of digital currency products tailored to the needs of the unbanked has appeared on the market. These products include prepaid cards and mobile wallets and do not require a bank account. Despite consumers’ rapid adoption of digital currency products, a series of gaps and shortcomings affect this market and its industry. For this reason, the need for affordable access to digital currency remains largely unfulfilled and presents an area of opportunity.

Digital Currency: Definition and Trends

Definition

Digital currency refers to any exchange of money that takes place electronically through a secured network. There are four primary types of electronic money instruments: electronic fund transfers, payment cards, Internet payments, and mobile payments.³ These instruments are innovative in that they provide new ways to access money, including through the Internet and mobile devices. However, their users still need a bank account or a payment card, enabling traditional bank and credit card networks to settle the payments.

Electronic Fund Transfers

Electronic fund transfers include any transfers of money between two bank accounts initiated through an electronic terminal such as a computer; a credit, debit, or prepaid card; an automated teller machine (ATM); a point-of-sale (POS) device; or a smartphone. In these cases, the intermediaries are banks or other financial institutions where the sender and the receiver hold an account. People who do not have a bank account generally send and receive money through a variety of alternative providers, such as Western Union®, Money Gram®, or the Postal Service, whose products allow customers to conduct transfers in cash.

Payment Cards

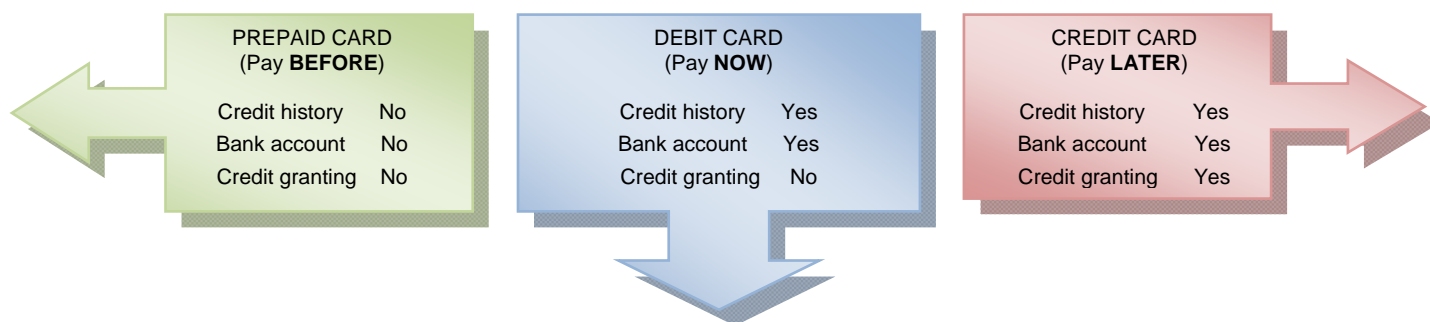
Payment cards are classified as credit, debit, or prepaid, depending on the level of restrictions and benefits granted to the holder by the card issuer.⁴ When a payment is made using a payment card, the transfer of money takes place through a payment network such as Visa, MasterCard, American Express, Diners Club, or Discover.

All three card types allow holders to make purchases in stores or online and to withdraw cash at an ATM. Credit and debit cards are tied to a bank account and provide more flexibility in terms of spendable amounts, though many require a positive credit history. Prepaid cards, in contrast, do not require a bank account or a positive credit record, but must be preloaded with funds before use. Figure 1 highlights the primary differences between credit, debit, and prepaid cards.

³ E-money, electronic cash, electronic currency, digital money, digital cash, digital currency and cyber currency are other terms used to express the same concept.

⁴ Payment cards can be magnetic stripe, chip-based (with contact or contactless), or both. Cards with contactless chips don't require a PIN; users pay by waving their card in front of a contactless terminal.

Figure 1: Primary Differences between Prepaid, Debit and Credit Cards



Source: OIG Analysis.

Internet Payments

Internet payments encompass a group of new online payment solutions aimed at increasing the simplicity and security of e-commerce. Consumers must still conduct these transactions with a payment card (typically, credit or debit) tied to a bank account, but the payer's financial information (owner's name, card number, type of card, and expiration date) is communicated to the vendor in an encrypted form to protect the payer from identity theft.

The typical example of Internet payment is the e-wallet. This is an encrypted data storage system where users save their payment card or bank account and shipping information. When they buy from an e-retailer offering this payment option, their saved information is automatically retrieved from the e-wallet and used to complete the transaction without being disclosed to the merchant. Providers of e-wallet solutions include PayPal®, Google Checkout®, Click2Pay®, and many others.

Mobile Payments

Mobile payments are transfers of money made through an application downloaded on a mobile device, via text messaging, or through a chip for contactless payments installed in the phone.⁵ Similar to Internet payments, mobile transactions are typically performed via payment card or bank account. Also like Internet payments, mobile payments use electronic wallet technologies that store payment card or bank details in the database of the provider, which releases them in an encrypted mode at the time of the payment.

⁵ Mobile payments should not be confused with mobile banking, which is the option to access and perform bank account transactions using a mobile device.

Trends

Fueled by new technologies, financial innovation, and changing consumer behavior, there is a clear shift to electronic payments in the United States.⁶ In 2009, the estimated volume of noncash payments was 108.9 billion transactions. Three-quarters of those noncash payments were made electronically, while checks represented less than a quarter, as shown in Table 1.

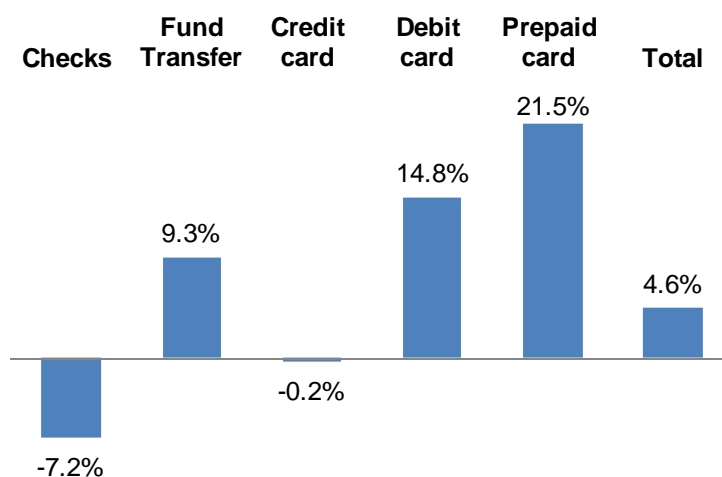
In 2009, three-quarters of 108.9 billion noncash payments were electronic.

Table 1: Volumes of Noncash Payments, 2006-2009

Volumes of Noncash Payments (billions)	2006	2009
Checks	30.5	24.4
Electronic fund transfer (ACH)	14.6	19.1
Credit card	21.7	21.6
Debit card	25.0	37.9
Prepaid card	3.3	6.0
Total	95.2	108.9

Source: 2010 Federal Reserve Payments Study — Noncash Payment Trends in the United States: 2006–2009.

Figure 2: Compound Annual Growth Rates of Noncash Payments, 2006-2009



Source: 2010 Federal Reserve Payments Study — Noncash Payment Trends in the United States: 2006–2009.

⁶ Several other factors, such as growth in economic activity and population, have also contributed to the increase in electronic payments.

Key trends in the use of noncash payments between 2006 and 2009 reveal the clear shift toward electronic payments:

- The use of debit cards grew almost 52 percent and, by 2009, they were the most widely used noncash instrument.
- The volume of credit card transactions declined slightly for the first time ever due to recession, though they still represented nearly 22 percent of the noncash payment volume in 2009.
- Although prepaid cards had the lowest transaction volume of all noncash payments, they increased at the fastest rate — in terms of both volume (see Figure 2) and transaction value — reaching a total volume of 6 billion transactions and an estimated value of \$120.2 billion in 2009.⁷ Analysts expect the growth of prepaid card use to continue, reaching \$440 billion by 2017.⁸
Prepaid cards increased at the fastest rate in terms of both volume and transaction value.
- The adoption of Internet payment services offered by non-bank providers such as PayPal and Google Checkout has also grown quickly. In 2009, about 30 percent of banked consumers had set up an account with an online payment services provider.⁹
- Domestic and international electronic fund transfers grew steadily by 9.3 and 9.7 percent, respectively.¹⁰
- Demand for paper money orders declined, caused largely by electronic substitution.
- User adoption of mobile payments is still limited. In 2009, less than 2 percent of U.S. consumers used their phone to make a payment online or at a point-of-sale terminal and the value of mobile payment transactions was \$5.2 billion. This value is expected to grow annually by 49 percent and reach \$56.7 billion by 2015.¹¹ The underbanked population, in particular, has a high propensity to engage in mobile transactions and represents a viable, growing target for mobile payment service providers.

Despite the increasing adoption of electronic payment tools and channels, the use of cash is still widespread. A number of barriers including the digital divide, financial

⁷ The value of prepaid transactions increased by 22.9 percent per year. See *2010 Federal Reserve Payments Study — Noncash Payment Trends in the United States: 2006-2009*, pp. 5-6.

⁸ The Boston Consulting Group, *The Prepaid Market Sizing Report*, 2010.

⁹ "Banked" refers to individuals or households who have checking or savings accounts at a bank and do not rely on alternative financial services.

¹⁰ In the United States, which has the highest immigration rate in the world, international remittances totaled \$48.3 billion in 2009. See World Bank, *Migration and Remittances Factbook*, 2011.

¹¹ MarketsandMarkets, *Mobile Payment - Advanced Technologies (NFC), Strategies And Future Of Remote & Proximity Payment In U.S.*, August 9, 2010.

exclusion, lack of knowledge, and cultural factors still preclude a significant number of people from realizing the benefits provided by digital currency. Any further increases in user adoption of digital currency will largely depend on the ability of the industry to overcome these barriers.

The Fastest Growing Digital Currency: Prepaid Cards

Prepaid cards are the fastest growing product in the digital currency market. Millions of unbanked and underbanked consumers are adopting these cards as an electronic payment instrument and a substitute for cash. This is largely due to the fact that prepaid cards do not require holders to have a checking account or a credit history, and can be considerably less expensive than a regular bank account in terms of fees.

Millions of the unbanked and underbanked are adopting prepaid cards as a substitute for cash.

The rise of user adoption has driven a number of new providers into the market. High fixed costs and low margins characterize the prepaid card industry as prepaid card revenues, deriving from card fees, are distributed across the value chain. For this reason, providers need scale and volume to drive profitability.¹²

Types and Features

There are three major categories of prepaid cards. Each enables different types of transactions and stores money electronically in different ways.

Stored Value Cards

The cash balance is stored directly on the card. The card remains anonymous, meaning that it is not issued in the name of a specific cardholder.¹³ Its use is generally limited to the purchase of the goods and services of a specific merchant. These cards cannot be redeemed for cash, but they can be freely reloaded with funds. Examples of stored value cards include transit system fare cards, telephone prepaid cards, and Starbucks cards.

Reloadable Prepaid Cards

The cash balance is stored remotely in the database of the issuer, and the card is issued in the name of the cardholder. The prepaid card is freely reloadable with cash. It is “open loop” when endorsed by an electronic payment network such as Visa or

¹² Fees can be applied to card acquisition, activation, point-of-sale (POS) or online transactions, cash withdrawal at an ATM, cash reloading, card balance inquiry, cancellation, and foreign currency conversion. Fees widely vary from provider to provider. Feature-rich prepaid cards tend to be more expensive than basic ones, although competition, regulation and technological innovation contribute to reduce their cost.

¹³ The only way for anonymous cardholders to protect their balance in case their card is reported lost or stolen is to register the card on the issuer's website. Not all the issuers offer this option.

MasterCard — meaning that it is usable for in-store or online payments everywhere the network is accepted.

These cards are the most complete and versatile type, with a number of features that make them a convenient form of payment:

- Fund Loading and Reloading: with cash, through direct deposit or electronic fund transfer.
- Payments: online and in stores everywhere the payment network associated with the card (e.g., Visa, MasterCard, or American Express) is accepted.
- Cash Redemption/Withdrawal: at any ATM in the world where the card payment network is accepted or at any store or location providing cash-back services.
- Money Transfers: from and to another card, cash, mobile device, or bank account.

Gift Cards

They combine some of the features of both stored value and reloadable prepaid cards. Gift cards are anonymous cards typically used as an alternative to a monetary gift. The donor prefunds the card with the desired amount, which the receiver can spend in store or online. The gift card cannot be redeemed for cash or reloaded with cash. Once the value is spent, the card is no longer usable. Gift cards may be endorsed by a major payment network and used without restrictions (open loop) or limited to a specific merchant (closed loop).¹⁴

Table 2 summarizes the main differences between the three prepaid card types described above.

Table 2: Differences between Prepaid Card Categories

Features	Stored Value Card	Reloadable Prepaid Card	Gift Card
Balance stored on card or with issuer	Card	Issuer	Card
Issued in cardholder's name	No	Yes	No
Redeemable for cash	No	Yes	No
Reloadable	Yes	Yes	No
Open or closed loop	Closed	Open	Both
Use in store	Yes	Yes	Yes
Use online	No	Yes	Yes

Source: OIG Analysis.

¹⁴ Open and closed loop gift cards are also available online in "virtual" format. Instead of a plastic card, the recipient receives an email with a gift card number to be used for online or over the phone purchases.

Growth Factors

Several factors contribute to the growth of prepaid cards, as described below (see Table 3):

Easy Adoption by the Unbanked and Underbanked – Approximately 30 percent, or 40 million, of U.S. households are unbanked or underbanked — meaning they have no access, or limited access, to primary financial services such as bank accounts, credit cards, or debit cards.¹⁵ These households are largely minority and low-income and are unable to afford or do not qualify for traditional checking or savings accounts. These households rely on high-fee alternative financial service providers for cashing checks, paying bills, or transferring money.¹⁶

About 40 million U.S. households are unbanked or underbanked.

Unbanked and underbanked individuals have become a target market for prepaid cards. Like cash, general purpose prepaid cards are a convenient, easy-to-use, accessible way to manage basic financial needs. Unlike cash, they allow users to engage in e-commerce and other Internet-based financial transactions.

Teens and college students represent another emerging market for prepaid cards. The recent Credit Card Act, which limits the ability of underage individuals to obtain credit cards, is likely to increase the use of prepaid cards among young people and parents wanting to manage their children's finances and online purchases in a more controlled and secure way.

Government Paperless Payment Policies – Federal, state, and local government entities are engaging in “paperless” payment programs to reduce mailing and processing costs.¹⁷ For example, beginning May 1, 2011, all new applicants for Social Security,

New applicants for and current recipients of federal benefits will be required to use an electronic payment method to collect benefits.

Veterans Affairs, or other federal benefits are required to use an electronic payment method, including direct prepaid debit cards, to collect their benefits. People currently receiving their federal benefits by paper check must switch to an electronic payment method by March 1, 2013.

Increasing Cost of Banking Services – Recent consumer protection policies introduced in the debit and credit card markets have limited banks' ability to charge customers with interchange or overdraft fees. In order to recover this lost revenue, banks might increase other service usage fees and eliminate free checking accounts, potentially

¹⁵ Federal Deposit Insurance Corporation (FDIC), *National Survey of Unbanked and Underbanked Households*, December 2009.

¹⁶ In 2009, underbanked consumers spent \$13 billion on non-bank financial service transactions according to the Federal Deposit Insurance Corporation, *National Survey of Unbanked and Underbanked Households*, December 2009.

¹⁷ According to the Government Accountability Office (GAO), “Treasury estimated that in fiscal year 2007, a check payment cost the federal government \$0.979 and an electronic payment cost \$0.099.” U.S. Government Accountability Office, *Electronic Payments: Many Programs Electronically Disburse Federal Benefits, and More Outreach Could Increase Use*, Report No. GAO-08-645, June 23, 2008.

pushing more people out of the banking system. These consumers are likely to turn to prepaid cards as a less expensive alternative to manage their basic payment needs.¹⁸

Payroll Prepaid Card Program – An increasing number of employers are adopting prepaid cards to facilitate direct payroll deposits, especially for daily, temporary, or immigrant workers without bank accounts.

Recession – The economic downturn and the financial crisis have likely contributed to an expansion of the target market for prepaid cards, as consumers look for ways to make payments without relying on credit and keep their spending under control.

Online Security – Prepaid cards are often used for online payments as the risk of theft is limited to the amount available on the card. In addition, some providers protect users against unauthorized purchases by refunding them the disputed amount (though many credit and debit card providers do the same).

Table 3: Prepaid Card Market: Growth Factors

Growth Factors					
Unbanked and Underbanked Population	Government Paperless Policies	Online Security	Increasing Cost of Banking Services	Recession	Payroll Prepaid Card Programs
Prepaid cards are a convenient, easy-to-use, accessible way to manage basic financial needs for people with limited access to banking services.	Federal, state and local governments are promoting the adoption of prepaid cards as a tool for unbanked to receive the payment of social benefits.	Prepaid cards are often used for online payments as the risk of theft is limited to the amount available on the card.	New consumer protection policies might force banks to increase service costs, potentially causing more people to be unbanked.	Consumers look for ways to make payments without relying on credit and keep their spending under control.	Employers are adopting prepaid cards to facilitate direct payroll deposits.

Source: OIG Analysis.

Marketplace

Mainstream banks have generally overlooked the prepaid card market, mostly due to profitability issues. Because prepaid cards are less profitable than checking accounts and less widely used than credit or debit cards, banks have little incentive to add them

¹⁸ Bretton Woods, Inc., *Reloadable Prepaid Card Analysis*, March 2011.

to their portfolio of products. Additionally, low-income consumers might use prepaid cards as an alternative to traditional banking services. Finally, regulatory barriers (compliance with the Patriot and Bank Secrecy Acts that require banks to apply high identification standards) and fraud concerns have also prevented banks from quickly moving to offer prepaid cards.

This absence of the nation's largest financial institutions has created room for long-established card issuers like Visa and MasterCard and for alternative providers such as Green Dot, Net Spend, Account Now, Western Union, and Wal-Mart to enter and dominate this marketplace. These players can rely on a widespread distribution and cash reload network located in supermarkets and convenience stores across the country.

In 2006, Wal-Mart, in partnership with Green Dot, successfully started selling Wal-Mart-branded reloadable prepaid cards to low-income consumers through its 3,100 stores in the United States, positioning itself as a low-cost prepaid card leader.¹⁹ Between 2006 and 2009, Wal-Mart sold two million cards and collected \$2 billion in deposits.²⁰ In partnership with Money Gram, Wal-Mart also offers money orders, money wires, and bill pay, which generated \$337.6 million in 2010.²¹

Wal-Mart sold two million prepaid cards and collected \$2 billion in deposits through its 3,100 stores.

Money Gram, which is the second-largest player in the consumer-to-consumer market, also sought partnerships with corporate entities as well as governmental entities (such as Canada Post) to expand the reach of its products, many of which are available

An extensive electronic payment-processing network and a large, convenient retail footprint are key elements to a partnership.

through multiple channels — including physical retail locations and online. Western Union, the leader in the consumer-to-consumer money transfer market, recently partnered with Obopay, a company specializing in mobile payments, to offer mobile-to-mobile money transfers.²²

These players often provide unique and specialized services in the prepaid card value chain. This allows various players to partner with each other, rather than compete, to extend their reach and lower their costs. A key element to establishing a partnership in this market appears to be the convergence of an extensive electronic payment-processing network and a large, convenient retail footprint. Figure 3 shows the role of each player in the prepaid card value chain.

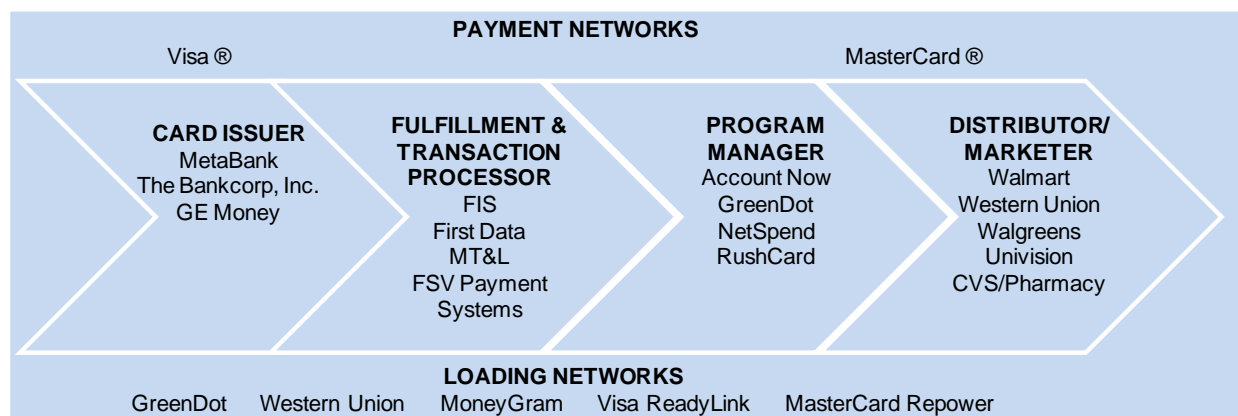
¹⁹ Wal-Mart charges \$3 for issuing and reloading the card, plus a \$3 fixed monthly fee.

²⁰ Ann Zimmermann, "Wal-Mart Cuts User Fees for Its Prepaid Visa Debit Card," *Wall Street Journal*, February 21, 2011, <http://online.wsj.com/article/SB123496685897511383.html>.

²¹ Calculated as 29 percent of Money Gram total fee and investment revenue according to 2010 Money Gram International Annual Report.

²² A more detailed description of the products and services offered by the major players in the prepaid and money transfer market is provided in Appendix A.

Figure 3: Prepaid Card Industry Supply Chain



Source: Center for Financial Service Innovation, *The Non-Profit's Guide to Prepaid Cards*, September 2010.

Shortcomings

While the consumer demand for prepaid card is growing rapidly, there are shortcomings among current players and their offerings that leave the need for affordable and convenient prepaid card services still unfulfilled. Among those shortcomings:

- The number of prepaid cards currently issued by all the major providers (about 10 million cards) covers just a fraction of the total underserved market of about 73 million individuals (40 million households).
- The geographical distribution of banks and prepaid card acquisition and reload locations reflects business strategies for profitability rather than principles of universal service access. As a result, rural and remote areas do not have adequate coverage.
- The cost of prepaid card services offered by certain providers, although still lower than a bank account, is not always affordable, especially for very low-income households. Wal-Mart is the only provider offering truly low-cost prepaid card options.
- A lack of consumer awareness and education is one of the major barriers to prepaid card growth. Prepaid cards distributed through pharmacies, groceries, and other retail stores are sold like any other item. Store personnel are generally not trained to provide customers with specific assistance or guidance on the prepaid cards.
- Informational material, such as multilanguage brochures explaining the service and the cost structure, is generally not available in these retail locations.
- Although the U.S. Treasury Department is promoting prepaid cards as a substitute for cash for citizens without a bank account, reaching out to this segment is not easy. About 30 percent of social benefit payments still have to be moved to the

electronic channel, while millions of citizens become eligible for social benefits every day.

Opportunities for the U.S. Postal Service

Expanding and Innovating the Postal Service Money Transfer Services Portfolio with Prepaid Cards

The analysis of the electronic currency landscape shows that people without bank accounts and debit or credit cards are largely excluded from the new digital economy. Although a variety of providers have introduced prepaid cards as a tool to serve the needs of the unbanked, the current supply market has shortcomings, both in terms of reach and accessibility.

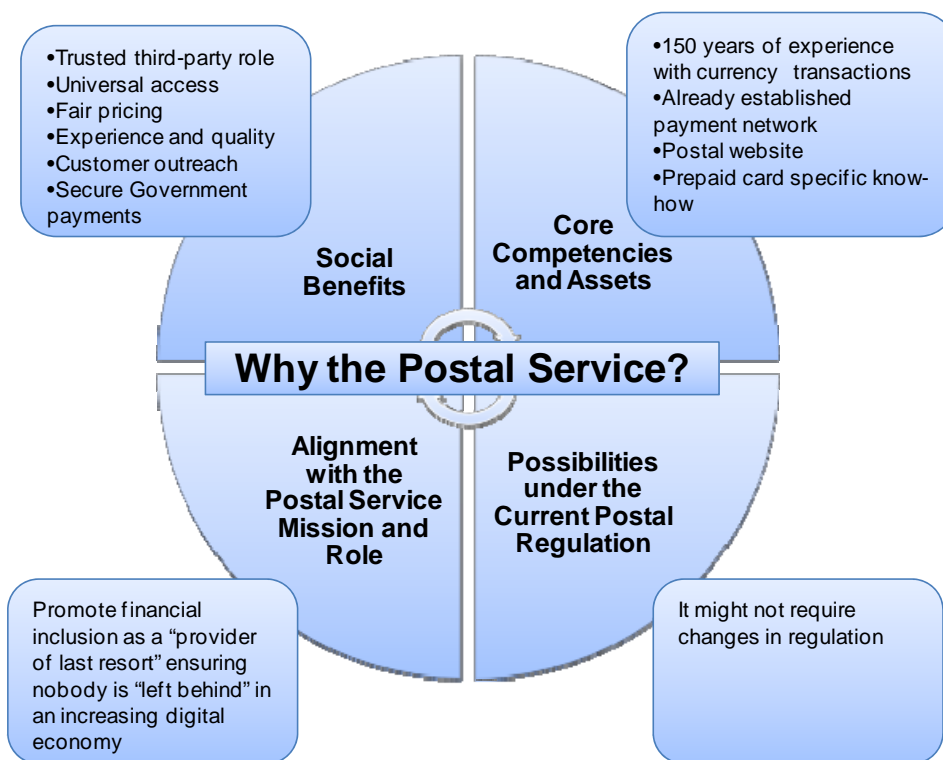
These shortcomings might represent opportunities for the Postal Service. Given its widespread network, trustworthy reputation, and longstanding experience in providing payment services, the Postal Service is well positioned to expand its offerings with prepaid cards to address the shortcomings and cater to the unmet payment needs of the financially underserved.

The Postal Service's network, trustworthiness, and experience address the market shortcomings of reach and access.

The following sections of the paper explain why pursuing this opportunity would be appropriate for the Postal Service according to four strategic guiding principles, identified in Figure 4 below:

- Alignment with the Postal Service mission and role;
- Benefit to society;
- Existing Postal Service competencies and assets; and
- Feasibility within current postal regulation.

Figure 4: The Guiding Principles



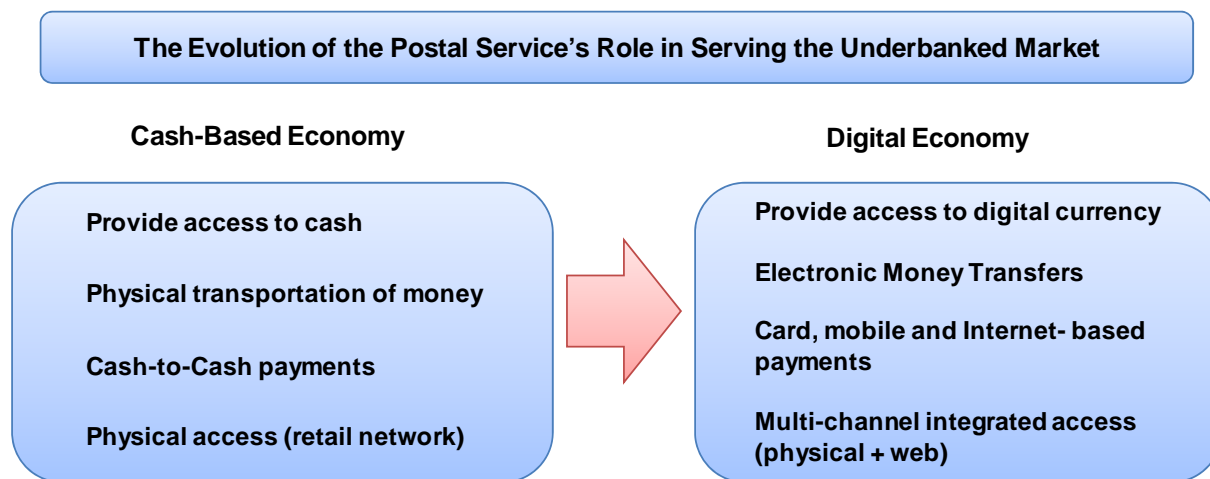
Source: OIG Analysis.

Alignment with the Current Postal Service Mission and Role

Promoting the financial inclusion of the unbanked and underbanked population could be an important part of the Postal Service’s mission of “binding the nation together.” To date, the Postal Service has fulfilled this mission through its physical infrastructure, by transporting money across the country, and by providing universal access to cash through its retail network.

In an environment that is increasingly dominated by the use of electronic money, embracing new payment technologies and adapting its offerings to the changing needs of these customers would be a natural evolution of the Postal Service’s role (see Figure 5). The Postal Service could position itself as a “provider of last resort,” helping bridge the gaps that cannot be easily filled by the private sector and ensuring that unbanked people are not left behind in an increasingly digital economy.

Figure 5: The Evolution of the Postal Service's Role in Serving the Underbanked



Source: OIG Analysis.

Social Benefits

As a “provider of last resort”, the Postal Service offers significant benefits to society:

- **Trusted Intermediary** – The Postal Service has long been a trusted third-party ensuring security and privacy to communications and transactions.²³ In addition, low income individuals perceive post offices as a less intimidating and less formal environment than banks as well as more reliable and transparent than many alternative financial service providers. The use of prepaid cards could spread more quickly among the unbanked and underbanked if the provider is such a well-known, familiar, trustworthy government institution.
- **Universal Access** – The widespread postal retail network would expand the scope of the existing commercial prepaid card networks, enabling universal access to digital currency in rural areas where the presence of private sector providers may be limited. In addition, the Postal Service website, used by millions every day, would provide digital users with another secure channel to access prepaid card services.
- **Fair and Affordable Pricing** – The Postal Service could charge the lowest combined fees for prepaid card services and would keep the pricing clear and transparent to further reduce barriers to adoption for customers.
- **Experience and Quality** – Prepaid cards distributed through pharmacies, groceries, and other retail stores are generally sold like any other item. Store personnel are typically not trained to provide customers with specific assistance or guidance

²³ The Postal Service is considered the most trusted federal government agency. See Ponemon Institute, *2010 Privacy Trust Study of the United States Government*, June 30, 2010.

concerning the prepaid products. Postal clerks, already experienced in conducting financial transactions, would provide unbanked customers with a higher level of service and customer care.

- Large-scale Customer Outreach – Through targeted marketing campaigns and informational material at post offices and the USPS.com website, the Postal Service could create awareness about the benefits of prepaid cards and help bridge the knowledge gap that still inhibits the widespread use of this product among unbanked customers. The vast Postal Service customer base and the postal employees would represent by itself an enormous potential market for the new product.
- Secure Government Payment Services – The Postal Service could offer its identity validation competencies to the state and federal agencies that pay social benefits through prepaid cards to support their antifraud and identity theft policies.

Core Competencies and Assets

The Postal Service has 150 years of experience as a trusted provider of affordable, reliable, and secure payment services to the unbanked. Over the years, the Postal Service has developed core competencies and assets around payment services that allow it to move effectively into the prepaid card market.

The Postal Service's competencies and assets allow it to move effectively into the prepaid card market.

Domestic postal money orders have been offered since 1864 as a safer alternative than sending cash through the mail. Purchasable and redeemable at any post office, they have typically been used for bill payments and person-to-person money transfers. The trustworthiness of the Postal Service as a provider, the widespread service accessibility, the accuracy of the payee identification process, and its efficient refund and replacement policies in case of theft or damage made the Postal Service a leader in the U.S. money order market.²⁴

Internationally, the Postal Service offers paper money orders to 30 countries and electronic wire transfers to 10 Latin American destinations. In 1997, the Postal Service introduced the international wire transfer service, Dinero Seguro – Sure Money®, in response to a need for a faster and more secure international wire transfer option. Bancomer Transfer Service, a private sector company with a large network across Latin America, manages the delivery of funds to the recipient in the destination country.²⁵

²⁴ The Postal Service guarantees a 100 percent refund on a stolen money order upon the presentation of the receipt together with the claim for refund. Defective money orders are replaced free of charge.

²⁵ See Appendix C for additional details on the existing Postal Service offering of payment products and services.

In the last 15 years, the Postal Service launched a number of initiatives in the field of prepaid cards that allowed it to acquire experience and capabilities specific to this line of products:

- It ran a Stored Value Card Program between 1996 and 2006. This program included the Liberty Cash Card and the First Class Phone Card. The Liberty Card was a reloadable closed loop prepaid card offered to postal customers to facilitate payment for postal products and services at postal outlets. The First-Class Phone Card was a prepaid phone card offered in partnership with AT&T.
- In April 2011, the Postal Regulatory Commission (PRC) authorized the Postal Service to market test for two years the sale of one-time-use, open loop prepaid gift cards cobranded with American Express through both its retail facilities and the Postal Service website.²⁶ Although gift cards represent a first step into the prepaid card market, their limited features (they are neither reloadable nor redeemable for cash) make them more suitable as substitutes for a monetary gift rather than a tool to facilitate payments and transactions.²⁷

In addition to that long history of providing payment services, the Postal Service can rely on a robust infrastructure that is able to process millions of dollars in payments made by customers via electronic fund transfers and debit cards every day. A Point-of-Sale (POS) system to accept and process card-based payments is available in each post office and enabled with card reload, cash-back, and card-based fund transfer capabilities. The Postal Service website already allows users to purchase products and services and pay online. The partnership with Bancamer Transfer Service and American Express demonstrated that the postal payment system could be made interoperable with the systems of partners and providers.

These core competencies and assets position the Postal Service as an effective provider of prepaid card services and allow a quick entry into the prepaid card market with relatively limited financial and operational effort.

Possibilities under the Current Postal Regulation

The Postal Accountability and Enhancement Act of 2006 (PAEA) authorizes the Postal Service to offer new products and services to the market, only if:²⁸

- They meet the statutory definition of a postal service: “the delivery of letter, printed matter, or mailable packages, including acceptance, collecting, sorting, transportation, or other functions ancillary thereto.”²⁹

²⁶ U.S. Postal Regulatory Commission, *Order Authorizing Gift Card Market Test*, Order No. 721, Docket No. MT2011-2, April 28, 2011.

²⁷ See Appendix D for additional details on the Postal Service past and recent experience with prepaid cards.

²⁸ Pub. L. No. 109-435, 120 Stat. 3198 (2006).

²⁹ 39 U.S.C. §102(5).

- They are provided to federal agencies with the objective to improve the quality and the accessibility of government services to the general public.³⁰

If the product or service does not meet those criteria, the integration of a new product, such as prepaid cards, into the current offering is likely to be prohibited without new legislation.

It is under these provisions that the Postal Service is testing the sale of prepaid gift cards through its retail network. As cash equivalents, gift cards are likely to be mailed to the recipients in envelopes or cards. The PRC considered them comparable to two existing postal products, greeting cards and money orders, and hence consistent with the statutory definition of postal services.³¹

The PRC classified another form of digital currency, Electronic International Money Transfer Services, as a competitive postal service, considered as “both a complement and as an extension to the paper money order postal service.”³²

Therefore, if the future prepaid card services are structured in a way to establish a clear nexus to mail, with the (ancillary) function to complement and extend existing money transfer services, they might be classified as a postal service and authorized under the current postal law.

Prepaid card services with a clear nexus to mail might be authorized under the current postal law.

Alternatively, if the Postal Service were to explore offering prepaid card services to federal agencies to facilitate the payment of social benefits to unbanked citizens, it might encounter fewer regulatory hurdles. The same legislative requirements that apply to the Postal Service’s new commercial offerings do not apply to products and services offered to the federal government. The Postal Service can even offer nonpostal products and services to the federal government provided it can show the social benefit of doing so.³³

Regulatory implications and options are discussed in detail in Appendix B.

Implementation Strategy

The Postal Service could enhance its current offerings by integrating the functionality of a prepaid card into the existing money transfer process. Postal customers could initiate the money transfer process with the prepaid card and have the funds delivered in a variety of ways: to another card, to a mobile device, to a bank account, or in cash.

³⁰ Id. at 59.

³¹ U.S. Postal Regulatory Commission, *Order Authorizing Gift Card Market Test*, Order No. 721, Docket No. MT2011-2, April 28, 2011.

³² U.S. Postal Regulatory Commission, *Review of Nonpostal Services under the Postal Accountability and Enhancement Act*, Order No. 154, Docket No. MC2008-1, December 19, 2008.

³³ 39 U.S.C. § 411.

If the Postal Service decides to pursue the prepaid card market opportunity, the following actions could provide the foundation of an implementation plan:

- Partner with one or more leading providers in the money transfer and payment card market to share the investment and capitalize on their “know-how,” technology infrastructure, and network.
- Leverage the partner network and service infrastructure to set up domestic electronic money transfers, expand the geographical scope of international remittance services, and allow wire transfers across multiple channels.
- Introduce a postal prepaid card with the flexibility to accommodate a broad variety of payments and transfers. The postal card would bear the Postal Service logo and imagery to leverage the power of the Postal Service brand.
- Maximize ease of use for customers by providing additional service access channels such as kiosk stations and the USPS.com website that allow customers to access services at their convenience.
- Implement policies to minimize cost and maximize the efficiency of post office window operations. For example, allowing customers to access services online or at kiosk stations minimizes the use of post office personnel resources.
- Reach out to the unbanked audience through targeted, multilingual, large-scale promotional campaigns.

The Features of the Future Postal Prepaid Card

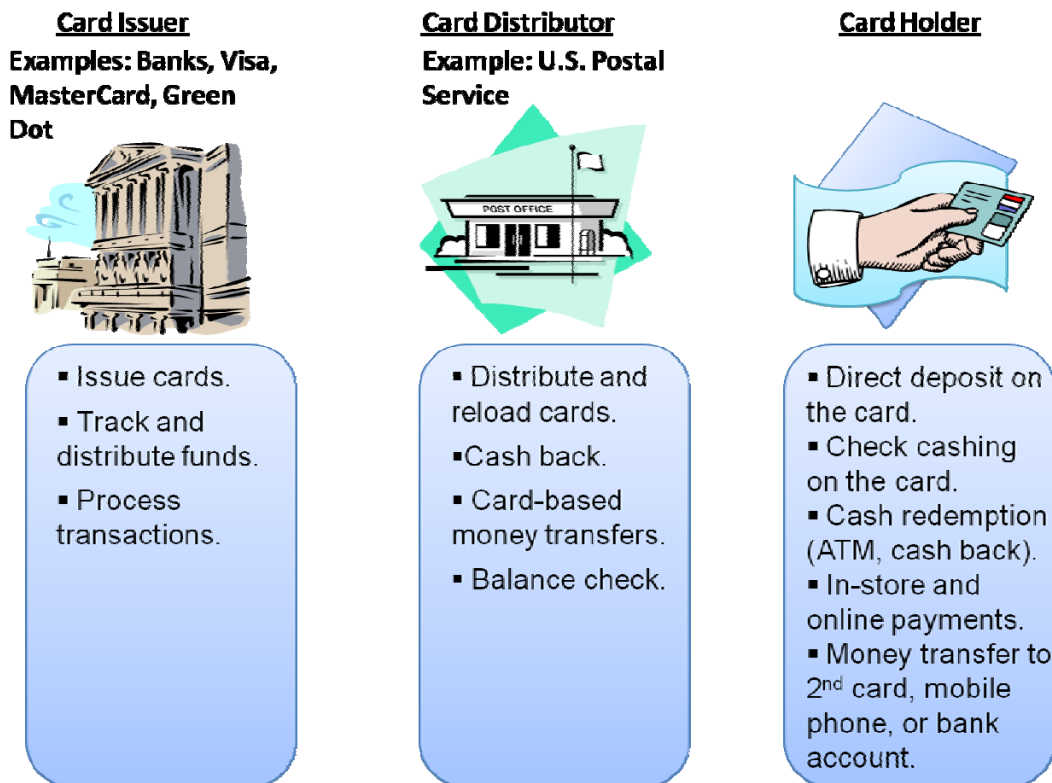
An open loop, reloadable prepaid card would ensure the broadest use and most versatility. It would enable transactions such as cash reloading and redemption, direct deposit on the card, Internet, mobile, and in-store payments, balance inquiry, and domestic and international money transfers to other postal cards.

Since the Postal Service is not an eligible issuer of prepaid cards, it could offer a cobranded card in partnership with one or more major providers. The partner(s) would manage service on the back end while the Postal Service would be in charge of marketing and distributing the cards to customers.

Consumers would purchase and activate the card at their postal retail outlet or through the USPS.com website. Services such as cash loading, cash redemption, and balance inquiries could be available at post offices, as well as at ATMs, grocery stores, and other locations currently offering these services for similar types of cards.³⁴ To make the service understandable and affordable for all, the fee structure would be simple and the cost as low as possible. Figure 6 provides additional details about the role of each player in the prepaid card supply chain and the benefits for the cardholder.

³⁴ Balance inquiries could also be performed online on the Postal Service’s website.

Figure 6: Task Sharing in the Postal Prepaid Card Supply Chain and Cardholder Benefits



Source: OIG Analysis

New Card-based Money Transfer Services

The following section describes two new card-based service options. These options are not exhaustive, but representative of the possibilities available for the Postal Service to leverage as it considers expanding into the digital currency market.

Prepaid cards would allow the Postal Service to develop new money transfer services.

The Postal “Dual-Card”

A card-to-card fund transfer is a transaction between holders of the same type of prepaid card, where the money is transferred from one card to another via an electronic payment network. The Postal Service could offer this option in the form of a “dual-card.” The sender of the money would purchase on USPS.com or at a retail location two postal prepaid cards tied to the same virtual “account.”

The purchaser keeps one of the cards and mails the second to the recipient (in the United States or in any other country), similar to a money order. Once received, the purchaser would activate the card, releasing the funds to the recipient. Thereafter, funds can be transferred to the second card anytime through a variety of channels (post office, USPS website, or mobile device).

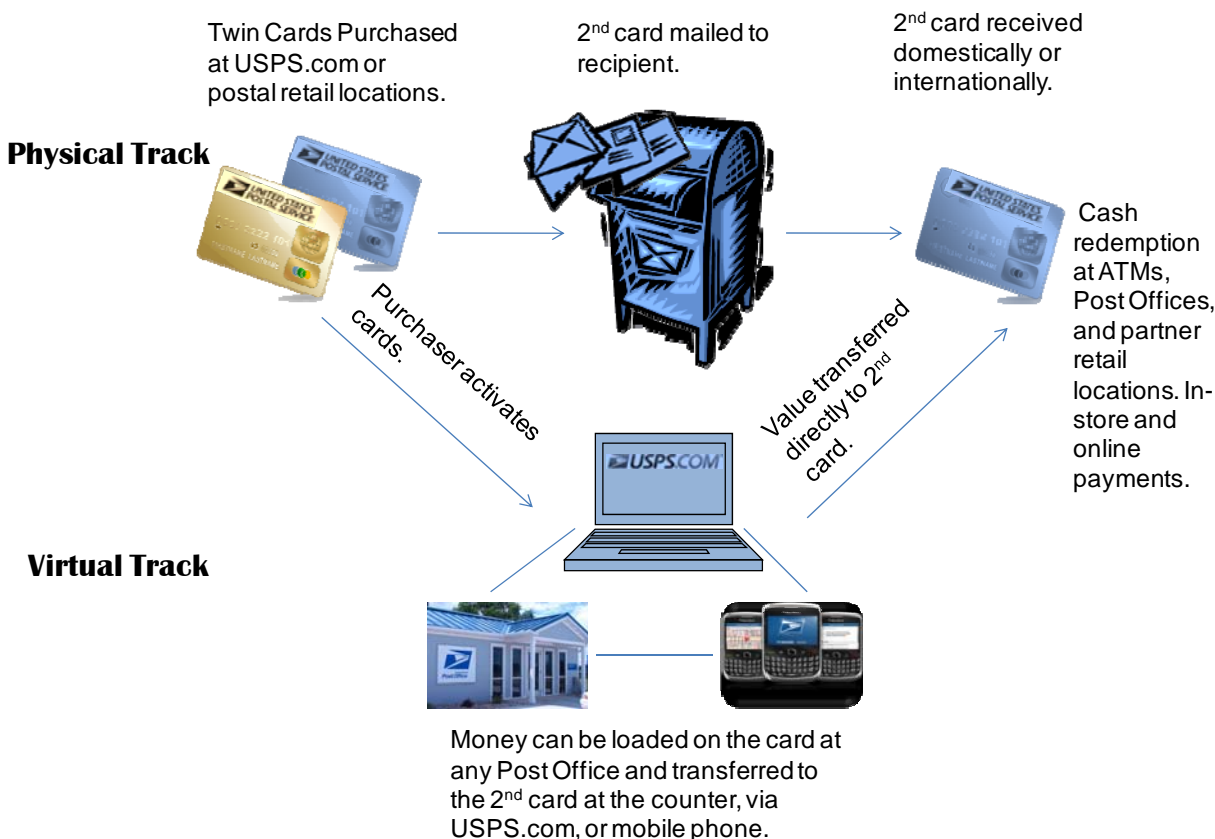
The recipient could withdraw cash anywhere in the world from any ATM or partner agent location (e.g., Bancomer) or use the money stored on the card for online and in-store purchases, anywhere the card network is accepted.

This solution for recurrent person-to-person money transfers would benefit unbanked individuals, including immigrant workers who regularly remit money to their relatives, students who receive a regular stipend from parents, and low-income families in need of a cash management tool.

The Postal dual-card transfers funds between holders of the same type of prepaid card and benefits unbanked individuals.

The dual-card can also be used individually. Used individually, the dual-card would function as a regular open loop prepaid card, providing a greater number of unbanked with access to the world of digital payments and online commerce that they do not currently have. Figure 7 illustrates how the dual-card might work in practice.

Figure 7: The Postal “Dual-Card” Working Model



Source: OIG Analysis

From the Postal Service's perspective, the dual-card would help expand the reach and convenience of its wire transfers, especially the international ones. Dinero Seguro, for example, currently covers a limited number of countries and requires the Postal Service to have a partner in the destination country to dispense the cash to the recipient. In contrast, because the recipient can use the dual-card to access cash anywhere in the world from any ATM where the card payment network is accepted, it could mitigate geographical and operational barriers to the service.

The postal card would work well with mobile phones and allow the Postal Service to leverage the rapid evolution of mobile technologies including mobile devices equipped with chip cards that perform the same transactions as a payment card. Unbanked customers, who often do not have access to broadband Internet, are heavy users of smartphones as alternatives to a computer. In the future, when the mobile payment market is more mature, the Postal Service could consider developing its reload and money transfer system to accommodate the changing habits of the unbanked segment.

Prepaid Card Services to the Federal Government

By 2013, the federal government will have phased out the use of traditional paper checks for paying social benefits. The Postal Service could offer prepaid card services to federal agencies to help them provide unbanked households with an alternative to the check in the mail.³⁵

The U.S. Department of the Treasury (Treasury) has a leading role in actively promoting the use of electronic payments among both the recipients of social benefits and the federal agencies that do not yet fully distribute those benefits electronically.³⁶ In 2008, in partnership with MasterCard, the Treasury launched a prepaid card program, the Direct Express Debit Card®, targeted specifically to citizens without bank accounts so they too can receive their benefits electronically.³⁷

The Postal Service could help the Treasury expand the reach of its prepaid program.

With more than 18 million people expected to retire during the next five years and 10,000 people a day becoming eligible for Social Security benefits, the Treasury has an arduous task ensuring that all federal social benefits are paid electronically.³⁸ The

³⁵ Moving 11 million Social Security recipients to debit cards is expected to save the Treasury \$1 billion over the next decade. Laurent Belsie, "Government check in the mail? No, on a debit card," *The Christian Science Monitor*, March 4, 2011, <http://www.csmonitor.com/Business/2011/0304/Government-check-in-the-mail-No-on-a-debit-card>.

³⁶ A recent study conducted by the Government Accountability Office (GAO) on 45 major federal benefit programs showed that the full digitalization of federal payments has still to be achieved. About 20 percent of programs do not yet deliver benefits electronically and, for the remaining 80 percent, the percentage of payments that were made electronically ranged from about 5 to 100 percent. U.S. Government Accountability Office, *Electronic Payments: Many Programs Electronically Disburse Federal Benefits, and More Outreach Could Increase Use*, Report No. GAO-08-645, June 23, 2008.

³⁷ <https://www.godirect.gov/gpw/index.gd>.

³⁸ U.S. Department of Treasury, "U.S. Treasury to 'Retire' Paper Check for New Recipients of Social Security and Other Federal Benefits, Saving Taxpayers \$1 Billion," news release, April 26 2011.

Postal Service could play a valuable role in helping the Treasury expand the reach of its prepaid program.³⁹

The Postal Service retail network could provide an additional information and enrollment channel, supporting the Treasury in reaching out to non-digital citizens and residents of remote areas. For example, the requests for the Direct Express Card could be submitted at any Postal Service retail outlet, where postal personnel would verify the identity of the applicants, helping limit the risk of fraud or identity theft. The request could then be sent to the Treasury for further processing, or the post office could issue the card directly.⁴⁰

The Postal Service retail network provides an additional information and enrollment channel and reaches non-digital citizens and remote areas.

Figure 8 illustrates the process.

Another option involves enabling the postal prepaid card to be used, in addition to the Direct Express Card, for direct deposit of social benefits. The owner of a postal prepaid card could activate this option simply by submitting the request to the Treasury through a post office.⁴¹

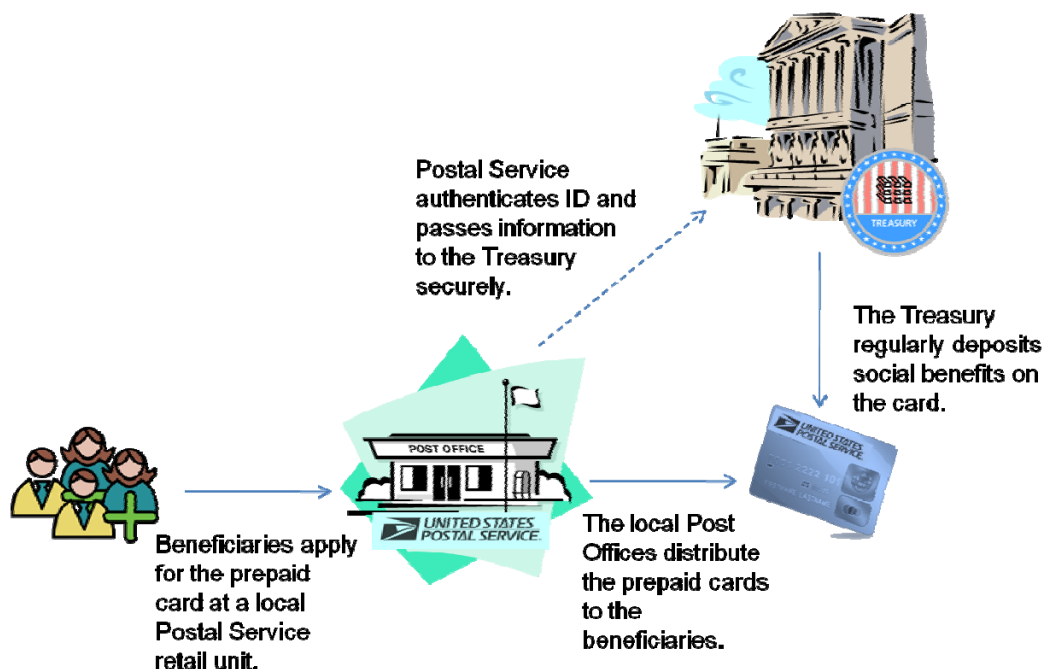
In both cases, cardholders could use the postal retail network to reload the card, redeem it for cash, or initiate a money transfer transaction.

³⁹ Expanding the adoption of prepaid cards as a tool for unbanked to receive the payment of federal benefits is part of the goals of the Financial Management Service U.S. Department of the Treasury Strategic Plan FY 2008 – 2013.

⁴⁰ In this case, a system would be required to enable the postal personnel to check, in real time, the eligibility of the applicant.

⁴¹ Government-sponsored prepaid cards tend to have fewer fees than those sold in stores. The Postal Service should consider this factor when considering the option to offer prepaid card services to the federal government.

Figure 8: A Collaboration Model between the Postal Service and the U.S. Treasury



Source: OIG Analysis

These options highlight some examples of how to structure a possible collaboration with the Treasury to facilitate payments to households without bank accounts. The Postal Service could start a discussion with the Treasury about a strategy to leverage the postal retail network to facilitate the payment and redemption of social benefits in the form of digital currency.

An International Outlook: The Experience of Poste Italiane

Poste Italiane is an example of a foreign post without a banking license that successfully entered the prepaid card market. Poste Italiane launched, in a cobranding agreement with Visa and MasterCard, “PostePay,” a low-cost, reloadable prepaid card targeting the unbanked and underbanked (low-income consumers and immigrant workers), employers, government agencies, teens, and students.⁴²

Poste Italiane is the leader of the Italian prepaid card market. Its PostePay prepaid card generated revenues of \$124 million in 2010.

The PostePay card is available through all 14,000 postal retail outlets. It can be reloaded at the post office (retail counters, kiosks, or proprietary ATMs), on the

⁴² Poste Italiane has lower fees than Wal-Mart. It charges \$7 (at current exchange rates) for issuing the PostePay, but only \$1.40 for card reloading, cash redemption and card-to-card money transfer, and no monthly fee.

company's website, and through Poste Mobile's SIM cards.⁴³ The card can be used for online and in-store payments (including contactless micro-payments), for cash withdrawal at ATMs, and for money transfers to other PostePay cards or Poste Mobile's phones.

With PostePay, Poste Italiane became the leader in the Italian prepaid card market (70 percent market share) with more than 6 million cards issued in 2011. The PostePay card generated revenues of \$124 million in 2010, about 2 percent of total revenues from financial services (\$6.3 billion).⁴⁴

Opportunities to Integrate Payments in the Future Postal Digital Platform

RARC recently released two white papers exploring roles and opportunities for the Postal Service in the digital era.⁴⁵

The second paper recommends that the Postal Service develop a secure digital platform to enable the provision of secure electronic communications and transactions to citizens, businesses, and government. The foundation of the future digital platform would be the e-Mailbox, a digital counterpart of the physical mailbox that establishes a permanent linkage between a physical and an electronic address and provides a unique online identity to every citizen and business. The e-Mailbox, also accessible via smartphone, would enable the secure sending, receiving, and storage of electronic messages and documents.

The e-Mailbox would link physical and electronic addresses and be the foundation of the future digital platform.

The Postal Service e-Mailbox would also have electronic payment functionality. This would allow users to perform a series of transactions, such as bill and invoice payments, online purchases, and tax form submission and settlement, directly from the e-Mailbox. Users would be able to safely store their payment cards or bank account details in the e-Mailbox and pay bills or respond to online offers directly from an email without disclosing financial information on the Internet. Invoices and payment receipts could then be stored in the e-Mailbox folders.

In this context, the postal prepaid card would make the payment functionality offered through the postal e-Mailbox universally accessible, including to citizens without a bank account or credit card.

⁴³ Poste Mobile is the subsidiary of the Italian Post for the provision of mobile services.

⁴⁴ To provide context, the gross domestic product (GDP) of Italy was over \$2 trillion in 2010, or about one-seventh the GDP of the United States.

⁴⁵ *The Postal Service Role in the Digital Age Part 1: Facts and Trends*, Report No. RARC-WP-11-002, February 24, 2011, http://www.uspsaig.gov/foia_files/RARC-WP-11-002.pdf and *The Postal Service Role in the Digital Age Part 2: Expanding the Digital Platform*, Report No. RARC-WP-11-003, April 19, 2011, http://www.uspsaig.gov/foia_files/RARC-WP-11-003.pdf.

Conclusion

The world of digital currency presents the Postal Service an opportunity to provide electronic transactions to the financially underserved in the form of prepaid cards. The Postal Service has the core competencies and assets to effectively expand into this market. Further, this would align with its traditional mission and role. In addition, postal regulation might provide the Postal Service with sufficient flexibility for proceeding under the current regulatory framework. We encourage the Postal Service to pursue this opportunity and develop an implementation plan aimed at enhancing its current money transfer portfolio with prepaid card services. The offer of prepaid card-based money transfers to the unbanked and the federal government could be the first service options explored. Lastly, we recommend that the Postal Service integrate prepaid card payment functionality into any future digital platform that secures electronic communications and transactions, to make it accessible for all.

Appendices

Appendix A Major Players in the Prepaid Card and Money Transfer Market

Players	Wal-Mart	Western Union	Money Gram	Green Dot	Visa	MasterCard
Services	Wal-Mart Moneycard (with Visa). International Money Transfers. Bill Pay and Money Orders (with MoneyGram).	Consumer-to-Consumer wire transfers. Bill payments. Money Orders. Prepaid Cards.	Consumer-to-Consumer global money transfers. Bill payments. Money Orders.	General purpose reloadable prepaid cards (with Visa and MasterCard).	Credit, debit and prepaid card transaction processing. International cash-to-card money transfers in partnership with BBVA, Bancomer and MoneyGram.	Credit, debit and prepaid card transaction processing.
Number of Prepaid Cards/Money Orders Issued	2 million prepaid cards issued between 2006 and 2009.	1.1 million prepaid cards in circulation in 2011. ⁴⁶	204.7 million money orders in 2010 (U.S. and Puerto Rico). ⁴⁷	10.53 million cards (prepaid and gift cards) activated since January 2009.	NA	NA
Number of Branches	3,100 retail locations.	445,000 worldwide. 66,750 in the U.S.	190,000 agents worldwide. 61,092 money order locations in the U.S. and Puerto Rico.	Cards sold at a combined 55,000 retail locations and online.	Visa ReadyLink, prepaid load network, available at 50,000 retail outlets.	NA
Revenues by Product Category	\$337.6 million attributable to the partnership with MoneyGram, including money orders, bill pay, and money transfers. ⁴⁸	\$87.6 million from money orders and prepaid cards. \$4.38 billion from consumer-to-consumer fund transfers.	\$74.9 million from money orders. \$893.2 million from global fund transfers.	\$167 million from payment cards. 101 million from fund transfers.	NA Visa calculates revenues based on service fees and investments rather than product class.	NA MasterCard calculates revenues based on service fees and investments rather than product class.

NA= Not Available.

⁴⁶ Western Union, Second Quarter Results, 2011.

⁴⁷ Money Gram International Annual Report, 2010.

⁴⁸ Calculated as 29 percent of MoneyGram total fee and investment revenue according to 2010 Money Gram International Annual Report.

Appendix B Regulatory Issues and Options for the Postal Service to Offer Prepaid Card-Based Money Transfers Under Current Postal Regulation

The Postal Accountability and Enhancement Act of 2006 (PAEA) authorizes the Postal Service to offer new products and services to the market, only if:⁴⁹

- They meet the statutory definition of a postal service: “the delivery of letter, printed matter, or mailable packages, including acceptance, collecting, sorting, transportation, or other functions ancillary thereto.”⁵⁰
- They are provided to federal agencies with the objective to improve the quality and the accessibility of government services to the general public.⁵¹

If the product or service does not meet those criteria, the integration of a new product like prepaid cards into the current offering is likely to be prohibited without new legislation.

Statutory Definition of Postal Service

The PRC has responsibility for deciding whether a new product or service is postal or nonpostal. The PRC applies the statutory definition of postal service: “the delivery of letter, printed matter, or mailable packages, including acceptance, collecting, sorting, transportation, or other functions ancillary thereto[.]”⁵² The PRC explained that the term “‘ancillary’ means auxiliary, subordinate, or subsidiary.”⁵³ Ancillary services classified by the PRC as “postal” include Address Management Services such as Move Update, Ready Post shipping supplies, Greeting Cards, and Customized Postage.⁵⁴

The PAEA includes an exception to the general rule prohibiting nonpostal products, by permitting the continuation of nonpostal products that were offered by the Postal Service as of January 1, 2006. Such services could be continued or “grandfathered” into the new regime after the PRC considered two criteria: the public need for the service, and the ability of the private sector to meet the need.

⁴⁹ Pub. L. No. 109-435, 120 Stat. 3198 (2006).

⁵⁰ 39 U.S.C. §102(5).

⁵¹ Id. at 59.

⁵² 39 U.S.C. §102(5).

⁵³ U.S. Postal Regulatory Commission, *Review of Nonpostal Services under the Postal Accountability and Enhancement Act*, Order No. 154, Docket No. MC2008-1, December 19, 2008, p. 30.

⁵⁴ Id. at 31-36.

Postal Money Orders and International Wire Transfers

In Docket No. MC2008-1 Order 154, the PRC states that domestic money orders “have long been classified as a postal service.”⁵⁵ The PRC favorably cited a case that noted that money orders are generally sent through the mail and would ordinarily be considered postal services.

Furthermore, International Money Transfer Service (IMTS), offered commercially as Dinero Seguro, was classified by the PRC as a postal service in the competitive category, even when offered in electronic form.⁵⁶ The PRC cited “the Postal Service’s extensive history in providing remittances to customers, the unique role that postal administrations may serve in this area, and that IMTS when offered through postal networks is ancillary to hardcopy postal services.”⁵⁷ The PRC also said IMTS “serves as both a complement and as an extension to the paper money order postal service”.⁵⁸ The PRC continued “[i]t 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.”⁵⁹ The PRC also noted that no participant in the classification proceeding objected to classifying IMTS as a postal service.

Stored Value Cards and Gift Cards

Beginning in 1996, the Postal Service offered a reloadable stored value card usable for the purchase of Postal Service products and services. The Postal Service suspended the product at the end of FY 2003. In Docket No. MC2008-1, Order 154, the Postal Service discussed the possibility of reintroducing stored value cards. The PRC denied the Postal Service’s petition to have stored value cards approved as a grandfathered nonpostal service. The PRC found that stored value cards were not eligible for grandfathering because the service had been cancelled in 2003, and was not being offered on January 1, 2006.⁶⁰ However, the Commission specifically noted that its finding that a stored value card was ineligible for grandfathering did not “foreclose the possibility of the Postal Service offering a card that may, if properly supported, be classified as a postal service.”⁶¹

In April 2011, the PRC authorized the Postal Service — Docket No. MT2011-2 Order 72 — to market test for two years the sale of one-time-use, open loop prepaid gift cards through both its retail facilities and the website.⁶² The PRC concluded that gift cards meet the definition of postal service as “they may reasonably be compared with two existing postal services, money orders and greeting cards. Like money orders, gift cards

⁵⁵ Id. at. 37.

⁵⁶ Id. at 38.

⁵⁷ Id.

⁵⁸ Id.

⁵⁹ Id.

⁶⁰ Id. at 48.

⁶¹ Id. at 48-49 n.90.

⁶² U.S. Postal Regulatory Commission, *Order Authorizing Gift Card Market Test*, Order No. 721, Docket No. MT2011-2, April 28, 2011.

provide a means to convey cash as either a payment or gift. Money orders may be redeemed at a variety of locations other than postal facilities. Open loop gift cards may be used to purchase goods or services wherever the card is accepted,” and “[l]ike money orders, the proposed gift cards would not be reloadable. In addition, “gift cards are often transmitted in greeting cards.”⁶³

Services Provided to Federal Government Agencies

The laws governing the Postal Service specifically authorize the Postal Service to enter into agreements with executive agencies of the federal government and the United States Government Printing Office to furnish property and services.⁶⁴ Under this authority, the Postal Service provides services for federal agencies, including processing passport applications for the State Department, selling Migratory Bird Hunting and Conservation stamps for the U.S. Fish and Wildlife Service, and processing equal employment opportunity complaints. While the PRC noted that these are nonpostal services, the Commission also noted that they are not “services” subject to PRC regulation.⁶⁵

The PRC stated that it would regulate only those activities that meet the following definition: “Any ongoing, commercial activity offered to the public for the purpose of financial gain. The PRC found that services offered to federal agencies under §411 are “neither commercial in nature nor offered to the public for purposes of financial gain.”⁶⁶

⁶³ U.S. Postal Regulatory Commission, *Order Authorizing Gift Card Market Test*, Order No. 721, Docket No. MT2011-2, April 28, 2011.

⁶⁴ 39 U.S.C. §411.

⁶⁵ U.S. Postal Regulatory Commission, *Review of Nonpostal Services under the Postal Accountability and Enhancement Act*, Order No. 154, Docket No. MC2008-1, December 19, 2008, pp. 55-56

⁶⁶ *Id.* at 59.

Appendix C The Existing Postal Service Payment Product and Service Offering

Domestic Money Orders

Postal domestic money orders can be considered the equivalent of sending checks in the mail. They can be purchased for a fee⁶⁷ at any post office in the United States, or from any rural route carrier, with cash or PIN debit or prepaid cards, up to a maximum of \$1000. All U.S. money orders may be cashed at any post office or bank. Money orders are typically used for bill payments and person-to-person money transfers.

The trustworthiness of the Postal Service as a provider, the widespread service accessibility, the accuracy of the payee identification process, and its efficient refund and replacement policies in case of theft or damage,⁶⁸ made it a leader in the United States money order market with about 70 percent share.

International Money Orders and Wire Transfers

The United States is the country with the highest volume of international remittances in the world. Over the years, the Postal Service has played an important social role in supporting the economic and social development of the origin countries of its immigrant communities, by providing them a convenient and efficient channel to remit funds abroad.

The Postal Service international transfer portfolio includes both hardcopy and electronic wire transfers. International paper-money orders are available at any U.S. post office and cover the 25 most requested destination countries. Money orders are delivered to the recipient by the postal operator of the destination country, and are cashable at local banks or post offices. In 1997, in response to growing customer need for a faster and more secure option, the Postal Service introduced Dinero Seguro, an electronic money transfer service to Latin America. Dinero Seguro is offered in partnership with Bancomer Transfer Service, a private sector company with a large network across Latin America, through which the funds transferred from the United States are dispensed to the recipient in the destination country. The service is offered in a limited number of post offices and destination countries⁶⁹ which are selected according to geo-demographic criteria and migration trends, respectively.

Today, hardcopy money orders are declining under the pressure of electronic alternatives, while Dinero Seguro offers limited options in terms of service access

⁶⁷ The service fee charged by the Postal Service can vary between \$1.10 and \$1.90, depending on the amount sent.

⁶⁸ The Postal Service guarantees a 100 percent refund on a stolen money order upon the presentation of the receipt together with the claim for refund. Defective money orders are replaced free of charge.

⁶⁹ Countries participating in Dinero Seguro include: Argentina, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Peru.

channels, geographical coverage and integration with other electronic money management instruments.

Treasury and Postal Checks

Over the years, the Postal Service has not just provided its infrastructure to distribute the government's benefit checks through the mail, but also made available its postal retail outlets to people without a bank account for cashing Treasury issued checks. The Postal Service has been offering these check-cashing services free of charge, both for the Treasury and the beneficiaries of its subsidies, as part of its social role and in the spirit of cooperation and support of other federal agencies.⁷⁰ However, the request for the service has always been quite limited. This has mainly been the case because this option has not been advertised, as it is offered as a general, non-mandatory practice, depending on the post office's availability of cash. This public service might lose part of its importance in the future, given the plan of the Treasury to cut on mailing costs by dispensing all its benefit in electronic form by 2013.

In addition to Treasury checks, the checks issued by the Postal Service to pay its own unbanked employees can also be cashed at any post office free of charge. In the future, the Postal service could give to the personnel without bank accounts the option to have their paychecks deposited on a postal prepaid card.

⁷⁰ Title 39 of the Postal Accountability and Enhancement Act of 2006 (39 U.S.C. § 411) authorizes the Postal Service to provide non-postal services to Executive agencies "under such terms and conditions, including reimbursability, as the Postal Service and the head of the agency concerned shall deem appropriate."

Appendix D The Postal Service Past and Recent Experience with Prepaid Cards

In the last fifteen years, the Postal Service has launched a series of initiatives in the field of prepaid cards with the objective of facilitating the payment of postal products and services, as well as improving customer experience at the post office.

The Postal Service Stored Value Card Program

The Postal Service started a Stored Value Card Program for the first time at the end of the 1990s. In 1996, it launched the “Liberty Cash Card,” a reloadable closed loop prepaid card. The card was not introduced as a commercial product, but rather as a free tool offered to postal customers to facilitate the payment of postal products and services at postal outlets. The card could be requested and reloaded at the counter of participating post offices. Negative cost-benefit ratio considerations, together with a declining demand for a payment tool that could only be used within the post office network, led the Postal Service to suspend the Liberty Cash Card in 2003.

In 1997, the Postal Service also started selling a pre-paid phone card, the “First-Class Phone Card”, in partnership with AT&T.⁷¹ The service was terminated in 2006, affected by the proliferation of alternative Internet-based calling solutions, customer preference for online prepaid phone card stores, and increased competition.

Gift Cards

In April 2011, the PRC authorized the Postal Service to market test for two years starting this June the sale of one-time-use, open loop⁷² prepaid gift cards through both its retail facilities and the website.⁷³ The pilot, conducted in partnership with American Express, will initially involve about two thousand post offices where greeting cards are sold, and another three thousand will be added later. The cards, available in fixed or variable amounts,⁷⁴ will be purchased and activated at the post office window by using the existing POS system. Revenue will come from the activation fee paid by the customer at the time of purchase.⁷⁵ If the market test is successful, gift cards will officially become a new competitive postal product.

⁷¹ The card was sold in a limited number of post offices. It was available in fixed amounts of \$10 and \$20 or reloadable with cash at the post office up to \$300.

⁷² Open loop cards are general purpose cards endorsed by a payment network such as Visa, MasterCard, American Express or Discovery and can be used in-store or online everywhere that network is accepted. Closed loop cards, by contrast, can be used only for purchases at specific merchants.

⁷³ U.S. Postal Regulatory Commission, *Order Authorizing Gift Card Market Test*, Order No. 721, Docket No. MT2011-2, April 28, 2011.

⁷⁴ In compliance with anti-fraud and money laundering legislation, postal gift cards will be offered in fixed amounts of \$25 and \$50, and in variable amounts up to a maximum of \$100 per card. Limits of a \$500 daily and \$3000 weekly maximum per customer will be also applied.

⁷⁵ The cost of the card will be \$5, the same as the gift cards generally sold at grocery stores and big chains.

As gift cards are often mailed in cards or envelopes, they are very similar to postal money orders.⁷⁶ However, this is not the way consumers typically use this product, considered to be more of a monetary gift rather than a payment tool in the stricter sense. The Postal Service has positioned this product accordingly. Gift cards, together with greeting cards, are going to be part of a broader retail strategy for providing “a better experience for customers in the post office lobbies,”⁷⁷ rather than an expansion of its offer of payment services to unbanked customers.

⁷⁶ Given their double nature of payment tool and mailable item, “Gift cards may reasonably be compared with two existing postal services, money orders and greeting cards. Like money orders, gift cards provide a means to convey cash either as a payment or gift.” U.S. Postal Regulatory Commission, *Order Authorizing Gift Card Market Test*, Order No. 721, Docket No. MT2011-2, April 28, 2011, p.8.

⁷⁷ Steven E. Mills, Manager of Retail Products at the U.S. Postal Service, quoted in “USPS to Sell Amex Gift Cards,” *E-Magazine*, May 13, 2011, http://www.sellingprepaid.com/emagazine.php?story_id=291.