BANKING ON A FUTURE FOR POSTS?

A FINANCIAL ASSESSMENT OF POSTAL BANKING AND FINANCIAL SERVICES AT VARIOUS POSTAL ADMINISTRATIONS

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INTRODUCTION

Post offices around the world face significant financial challenges due to economic recession, electronic diversion and increased competition. On the one hand, these challenges have led to falling mail volumes, which have weakened the economic viability of many postal administrations. On the other hand, they have spurred some administrations to bolster, innovate and expand services in an attempt to improve their economic viability. This paper looks at efforts in respect to banking and financial services.

These services have received little attention in postal economics literature. But scrutiny has increased in recent years as lettermail revenues have decreased and revenues flowing from financial and banking services have increased. This paper aims at adding to the analysis of papers by Luisa Anderloni and Odile Pilley on European post offices in financial services (1999), the World Bank on postal networks and access to financial services (2006), Neil Anderson and James W. Sauber on post offices and remittances (2009), Jose Anson and Joelle Toledano on postal finance and lessons from developed and developing countries (2010), and Marie Odile Pilley and Gonzales d'Alcantara on postal financial service economics and regulation (2010). The paper also aims at contributing to the ongoing debate about what kind of services Canada Post Corporation should be providing and what role the corporation should play in future.

The paper provides six case studies describing the models of banking and financial services provided by postal administrations in Brazil, France, India, Italy, Switzerland and the United Kingdom. It also examines, where possible and to the extent possible, how these services have contributed to the economic situation of the aforementioned postal administrations.

In addition, the paper explores the potential for expanding financial services and introducing banking services at Canada's post office. It provides a summary of problems in the financial and banking industry as well as an overview of demands for change and support for postal banking. The paper looks at past and current arrangements between Canada Post Corporation and banks and financial institutions, and considers circumstances that might allow the corporation to expand its involvement.

1. BRAZIL: BANCO POSTAL

With the extension of correspondent banking to non-financial firms in 1999 Brazil pioneered a successful financial inclusion model which is now commonly known as “branchless banking”. Key to Brazil’s success was the creation of Banco Postal in 2002. Working first as a correspondent with Brazil’s largest private sector bank Bradesco, and now as a correspondent associated with the publicly owned Banco do Brasil, Banco Postal has opened more than 6,300 postal bank branches and provided bank accounts to more than ten million people. The majority of these new services have been directed towards meeting the needs of the poor and marginized populations living in rural and underdeveloped regions of Brazil.

THE CONCEPT OF CORRESPONDENTS

The purpose of correspondent banking is to permit existing registered banks to provide banking services through large non-banking networks such as supermarkets, lottery shops, pharmacies, post offices or other retail companies. The correspondent performs specified services for the bank in exchange for fees and also benefits from increased sales generated by additional customer traffic.

The original concept of correspondents was introduced in 1973 when the Banco Central do Brasil (BCB) allowed banks to establish special service-level agreements with legal entities for collection and payment services conducted on their behalf. At this point, correspondents were restricted to authorized financial firms and were not allowed to offer other services, such as loan applications and deposits. As such the number of correspondents was very limited.

Amendments to the legislation in 1999 made it possible for non financial firms to act as correspondents and the number and type of services was greatly expanded. Under Brazilian law permitted operations now include proposals for opening accounts, account transactions such as deposits and withdrawals, payment accounts and payment orders, loan applications, credit analysis, collections and credit cards. There are confidentiality requirements and minimum security provisions which are set by the BCB. The BCB also has unrestricted access to all data and documents relating to the relationship between the bank and the correspondent.

The purpose of establishing this system of correspondents, as stated by the BCB, is to provide greater access to banking services as a means of ensuring citizenship and promoting economic and social development. The government also benefits from greater economic growth and regional development.

2001: PUBLIC SECTOR POST OFFICE PARTNERS WITH A PRIVATE SECTOR BANK

The decision, in 2001, to award Bradesco, the nation's largest private sector bank, with the right to operate correspondent banking through the postal network, was controversial from the beginning. It was a period of significant political turmoil and financial crisis. Public opposition to the neoliberal and pro-privatization policies of the administration of Brazil's President Fernando Cardoso was intensifying. The economy was still mired in an economic crisis that had witnessed a massive outflow of capital combined with a rise of the total public debt from 30% to 55.5% of GDP. Plans to privatize the postal service and state owned banks were stalled in parliament. Many commentators agreed with the position taken by Fentect, the union representing postal workers, which argued that the partnership should have been made with a state owned bank and that the exclusion of state owned banks from the bidding process reflected the pro private sector bias of the Cardoso government. Despite public opposition the process proceeded and Bradesco, the only bank to bid, gained exclusive access to its network of more than 5000 post offices for ten years even though the contract was initially intended to go to several banks.

Prior to 2001, when the Banco Postal was established, the Brazilian Postal Office (Correios) had offered some financial services including collection of invoices, welfare payments, transfers and traveler's checks. In 1999 Correios requested authorization from BCB to broaden the range of products offered to the market. The decision of the BCB was to transform the financial services of the Postal Office into a postal bank correspondent to a financial institution.

Following a public bidding process Bradesco obtained exclusivity for correspondent banking using the postal network and Banco Postal was established. As part of the agreement Bradesco paid Correios US $150 million in order to structure its computerized management system. The agreement also stipulated that the operational staff would belong to Correios and that Banco Postal employees would not have access to account information due to bank secrecy regulations. Bradesco would be responsible for the cost of training postal workers.

The initial contract between Corrios and Bradesco included, at the stipulation of the government, that Banco Postal would provide services in underserved regions and would operate in a way to promote social inclusion. From its inception anyone with a national identity card and tax number could open one current and savings account. The account holders may also receive a Visa debit card. There is an outlet withdrawal limit of US $1,700. As long as a minimum balance is maintained customers are eligible for a credit limit equivalent to the average balance, which will increase as the balance is paid off.

2002-2012: A BRAZILIAN SUCCESS STORY

During its first decade of operation Banco Postal demonstrated how postal banking can stimulate economic growth, promote economic and social inclusion and provide significant revenues for its parent company Correios. By providing universal postal services and banking services, Correios emerged as a major player in national public policy and social responsibility, promoting diversity and equality, and combating discrimination.

Prior to 2002 millions of Brazilians were termed as financially excluded as they could not access banking services. The absence of banking services effectively made it impossible for them to save money, make purchases using credit, and establish a financial record to have them qualify for a mortgage or loan. In 2001 approximately 41% of 5,564 Brazilian municipalities, representing more than 18 million people, were still excluded from access to the financial system.

The initial launch of Banco Postal was conducted in March 2002 in about 1,000 postal offices almost simultaneously. By the end of 2002 Banco Postal had 2,450 agencies with 822 of them in municipalities where there was no bank. By the end of 2006 Banco Postal had 5,567 agencies in 4,860 municipalities, including 1,525 municipalities which did not previously have a bank or bank agency. To include communities with no access to financial services, 400 new post offices in the most secluded areas had been opened, which provided for many the first access to the Internet via computer stations.

A 2002-2006 Universal Postal Union (UPU) study concluded that Banco Postal had a positive impact on access and use of banking for relatively low income persons but no detected impact for relatively high income people. It also revealed that 50% of Banco Postal's deposits were made by people living in the poorest municipalities representing 29% of the overall population. The total number of accounts grew by over one million per year. By the end of the ten year contract with Bradesco there were more than
10 million accounts.

Greater financial inclusion also resulted in greater economic growth. Largely as a result of the micro-credit offered by Banco Postal municipalities with Banco Postal services experienced a 37% increase of new firms. A UPU study concluded that the growth in number of new firms in a municipality with Banco Postal services was 23% greater and job growth was 14% greater than in municipalities without Banco Postal.

THE FINANCIAL BENEFITS OF POSTAL BANKING FOR CORREIOS

As the exact financial terms of contract between Bradesco and Correios were never made public it is impossible to determine the financial benefits gained by Correios during its ten year partnership with Bradesco. Certainly it appears that Bradesco was very satisfied, so much so that in 2007 there was a re-negotiation of the contract and the tariffs to be paid by Bradesco were increased by 69%. Also how else can one explain the fact, that in 2011, in order to maintain the relationship, Bradesco was prepared to bid ten times what it had initially paid Correios in 2001.However even that was not enough to maintain the arrangement.

One result of the confidentiality agreement is that Correios does not provide detailed segmented financial information which would indicate the amount of revenue obtained through its correspondent services. Certainly customer traffic in post offices has increased dramatically with Correios estimating that the number of customers in rural areas has increased by 100% and urban offices have experienced a 25% increase since correspondent services were introduced.

THE FUTURE: A NEW PARTNERSHIP AND FURTHER EXPANSION

In May 2011 a new bidding process commenced to replace the 10 year correspondent contract between Bradesco and Correios. This time the public sector banks were permitted to bid and one of them, Banco do Brasil, won. The new agreement is for five and one-half years and contains terms much more favourable for Correios. First the initial fee to be paid by Banco do Brasil is US$1.77 billion plus US$307 million to provide postal banking services for government agencies. Banco do Brasil must also pay a set price per agency at the start of operations on January 2, 2012. For each new agency used by the banking partner Correios will receive a unit fee. Correios will also receive a percentage of the deposits held in savings and current accounts and a fee for each credit card and checking account kept in use. All transactions will now result in positive margin (such as withdrawals). Services of new venture will include microcredit, currency exchange, pre-paid cards, insurance, mobile services and credit cards. Correios will train 18,000 postal clerks to offer services.

Banco do Brasil will greatly expand the scope of its retail banking services. With Banco Postal as a correspondent Banco do Brazil will now reach 95% of Brazil's municipalities including 2,000 municipalities where it previous had not branches.

Switching to another partner will provide significant challenges for both Correios and Banco do Brasil as the clients of Banco Postal actually belong to the bank and not the Post. When the partners changed, the more than 10 million accounts that had been opened by the Post on behalf of Bradesco were actually owned by Bradesco. To prepare for the loss of the contract Bradesco had opened bank branches in all the most profitable towns where Banco Postal had opened accounts. When the transition took place Bradesco attempted to move these clients to its newly opened branches.

Banco Postal and Banco do Brasil also have their own strategies to entice the clients to stay with Banco Postal and its new partner and they appear to be fairly successful. In the first three months of 2012, 433,000 Banco Postal accounts were opened, including 6,200 for private companies. Credit Cards were issued to one third of these Banco Postal clients when they opened their Banco do Brasil accounts through Banco Postal.

STILL MUCH WORK TO DO

To further improve service and expand operations Correios plans to invest nearly US $2.6 billion in modernisation and branch network expansion over the next five years. This will include expansion of its branch network, its delivery fleet and investments in technology.

Unlike many countries mail volumes are still increasing in Brazil and Correios continues to expand its staff recently announcing plans to hire 10,000 new workers. Some 3,700 young trainees have been recently hired.

The modernisation process of the company was also boosted through a new law passed by the Brazilian government in May 2012. Under the new statute, Correios will now be able to diversify its services, create new subsidiaries and provide more integrated logistics services. It will also be able to establish international partnerships with other players and set up subsidiaries abroad. It is allowed to set up its own retail bank and could move into new business areas such as mobile phone services.

An example of new initiatives by Correios is its new partnership the Philippine Postal Service, PHLPost, to launch a new electronic international money order service between the two countries.

Despite the advances in economic and financial inclusion achieved in part through postal banking there is much yet to achieve in Brazil. Millions of people continue to be unbanked, many of them without access to banking services. There are also important labour issues that must be addressed to stop the banks and postal operators from circumventing labour laws that provide for increased compensation for workers in the banking sector. Workers who work in the correspondent operations of banks should have the same rights as bank workers. There are also growing issues with respect to the security at postal banks operations. However if the past decade is any indication there is ample room for optimism.

2. FRANCE: BANQUE POSTALE

Banque Postale is a wholly owned subsidiary of La Poste, the national postal service of France. It was created in 2006. Since then, as a result of innovative service offerings and the establishment of subsidiaries and strategic partnerships, it has emerged as a major financial institution with 10.4 million active personal customers and 450,000 business customers. In addition to retail banking for individuals, small businesses and local authorities it also provides a complete range of insurance offerings and asset management services. Despite several tumultuous years for the financial sector Banque Postale has consistently been very profitable, providing over $1 Billion Euros in dividends to La Poste during the past five years. At the same time it has pursued its mandate to combat banking exclusion.

BACKGROUND

There is a long history of the French post office conducting financial services. The National Savings Bank (CNE) was created in 1881 and put under the administration of the post office. Following the Second World War there was considerably more competition in the banking sector and La Poste was forced to respond by adding new services. Still there were considerable restrictions placed on the financial activities that could be conducted. In 2005 La Poste proposed the establishment of a banking subsidiary which would have control over customer deposits and credits.

The Banque Postale was created on December 31, 2005. The legislation provided a public service mandate in the banking, financial and insurance sector including an obligation to offer products and services to as many people as possible. Included in this obligation was the requirement to provide a Livret A passbook savings account to anyone who requests it at no charge. The account provides for the deposit of social service payments and civil service pensions and withdrawals for payments of taxes, utility bills and social housing rent. There were approximately 20 million Livret A accounts in 2006 and that number has remained relatively constant.

FINANCIAL PERFORMANCE

As seen in Figure: 1 Banque Postale has experienced tremendous growth during the period 2006-2012, especially considering the upheaval which occurred as part of an international financial crises.

During this period the active customers increased by 18%, the number of current accounts has increased by 300,000 and the value of outstanding property loans has more than doubled.

The number of Banque Postale ATMs also increased from 4,955 to 6,700. It should be noted that Banque Postale does not charge for cash withdrawals made in France using the cash machines of other banks even though it is charged for these withdrawals by the other banks.

During this same seven year period the total after tax net profit of Banque Postale amounted to 3.44 Billion Euros.

In 2012 Banque Postale ranked #44 on the Global Finance list of the World's Fifty Safest Banks. It had the fourth highest rating for banks from France.

Figure: 1 Banque Postale: Growth from 2006 to 2012

	2006	2008	2010	2012
Net Banking Income (Million Euros)	4,613	4,815	5,215	5,241
Net Profit – After Tax (Million Euros)	372.4	302.6	651.3	574.0
Current Accounts (Millions)	11.2	11.2	11.4	11.5
Active Customers (Millions)	9.0	9.53	10.04	10.6
Property/Home Loans (Billion Euros)	21.1	29.0	37.3	*45.0
Number of ATMs	4,955	5,191	n/a	6,700

**Includes E876 million transferred from Crédit Foncier*

THE IMPORTANCE OF BANQUE POSTALE TO LA POSTE

Banque Postale provides a very important source of revenue to its parent company, La Poste. As seen in Figure 2 Banque Postale has provided a sizable dividend to La Poste in each year of its operation. In fact Banque Postale has paid La Poste more in dividends than La Poste has paid to its shareholder, the government of France.

In addition Banque Postale also pays La Poste fees for use of the retail counters of La Poste to conduct banking transactions.

Figure 2

Year	Dividend paid by Banque Postale to La Poste (millions of Euros)	Dividend paid by La Poste to the French Government (millions of Euros)
2008	272	141
2009	96	106
2010	264	105
2011	293	136
2012	186	144.5
Total	**1,111**	**632.5**

SERVICES PROVIDED BY BANQUE POSTAL

Banque Postale provides a complete range of banking services for individuals, organizations and businesses including a comprehensive menu of bank accounts, savings plans, debit and credit cards, and credit options for its retail bank clients.

Through the creation of subsidiaries and partnerships Banque Postale has greatly increased its other service offerings since 2006. Now that it has obtained the ability to provide commercial loans to small businesses La Banque Postale is now capable of offering all of the products and services of a retail bank.

LOCAL AUTHORITIES LENDING

Due to the collapse and break-up of Dexia in late 2011 hundreds of French towns, cities and regions faced a funding squeeze. As a result of negotiations between the governments of France and Belgium the French municipal financing arm of Dexia was split from the Dexia group and merged with French state bank Caisse des Dépôts and Banque Postale, On 27 March 2013, La Banque Postale and Caisse des Dépôts announced the formation of their joint subsidiary - La Banque Postale Collectivités Locales. This company will market loans to local authorities and French hospitals. The ownership will be 65% to the Caisse des Dépôts and 35% to Banque Postale.

At the end of December 2012, six months after commencing its local authorities financing operations Banque Postale reported it had already granted 1.9 billion Euros in loans. La Banque Postale hopes to achieve a 20% market share in the local public sector in the next three years. It therefore aims to eventually produce approximately €5 billion in medium/long-term credit for local authorities and other players in the local public sector.

VOLUNTARY ORGANIZATIONS, SMES, MICRO-BUSINESSES AND SOCIAL HOUSING LANDLORDS

In September 2011, Banque Postale obtained the approval of the Autorité de contrôle prudentiel (French Prudential Oversight Authority) to provide financing for legal entities (SMEs, micro-businesses, nonprofit organisations, housing associations, etc.). It began marketing the financing range for its social economy customers (including advances on subsidies for voluntary organisations and loans for social housing landlords) in early 2012.

SOCIALLY RESPONSIBLE HOUSING LOANS

In keeping with its mandate to provide service for the greatest number of people, La Banque Postale is accelerating the expansion of its socially responsible access to home ownership. In October 2012, following a trial period of several months, La Banque Postale launched the PAS (socially responsible housing loan), a loan reserved for households subject to income conditions. This offering is currently being rolled out throughout France. La Banque Postale is aiming to generate €350 million of these loans in 2013, and around €1.3 billion by 2015.

In addition, La Banque Postale is proposing to set up an innovative socially responsible home ownership financing model. This model is based on the implementation of partnerships with players in the social housing market. It will allow La Banque Postale to provide a dedicated €1 billion budget to its lowest-income customers as of 2013.

A partnership is already being rolled out with the Fédération nationale des sociétés coopératives d'Hlm (French National Association of Subsidised Housing Cooperatives) and La Banque Postale is continuing its discussions with the Action Logement organization. The first meeting of the Social Home Ownership Policy Committee, chaired by Philippe Wahl, Chairman of the Executive Board of La Banque Postale, and involving numerous leaders from the housing and social home ownership sectors, took place on April 19, 2013.

La Banque Postale will also distribute its first loans to finance rent-to-buy transactions in 2013, backed by players in the social housing market. It aims to achieve a 10% market share in the first year of marketing these loans.

LOANS TO FINANCIALLY VULNERABLE CUSTOMERS

La Banque Postale's commitment to consumer micro-loans began in 2007. The Bank finances personal projects for private individuals who are excluded from normal banking services. In 2011, 18 new partnerships were entered into with bodies working in the social inclusion area (UDAF, CCAS, etc.) raising the number of partnerships agreed since 2007 to 96.

Elsewhere, in line with its support for the "Manifesto to provide vulnerable population groups in France with banking services" drafted by the French Red Cross, the Secours Catholique (Catholic Relief), and the UNCCAS in December 2011, La Banque Postale has put together a dedicated banking product range and support package for vulnerable customers, together with the major social service partners in France. In 2012, La Banque Postale, together with social partners, hosted budgetary education workshops for financially insecure youth. These workshops focused on good budget management and were conducted by young Civil Service volunteers. La Banque Postale supports Civic Service volunteers with benefits that include one year of free banking services and two months' free home insurance payments.

INSURANCE

La Banque Postale, in association with various partners, offers a full range of insurance products including personal insurance (life and retirement insurance, personal risk and health) and asset and liability insurance (means of payment, home, auto, legal protection). It markets these products to private individuals, professionals and organizations. La Banque Postale has won numerous awards for its insurance products.

Through its strategy of partnerships La Banque Postale has been able to use the expertise of established organizations to move quickly into new businesses. Many of the partnerships are held by SF2 which a holding company that unites several of La Banque Postale's subsidiaries and investments. SF2 controlled the Insurance and Asset Management businesses of La Poste prior to 2006 and was transferred to La Banque Postale when it was established in 2006.

In 2012 La Banque Postale Group's insurance segment, (including the equity consolidation of CNP Assurances), made an overall contribution of €219 million, an increase of almost €39 million compared with 2011.

Life Insurance: With €116.5 billion in life insurance deposits and 4.8 million policies in 2012, representing 8.5% of the overall market, La Banque Postale is a major player in the life insurance business. CNP Assurances products constitute a large majority of La Banque Postale's life insurance and retirement preparation offerings. La Banque Postale is a shareholder of CNP.

Personal Risk: Personal risk products (death, long-term care, funeral, accident coverage, etc.) are offered by La Banque Postale Prévoyance, which is equally owned by La Banque Postale and CNP Assurances. With more than 442,000 new policies at the end of 2012, La Banque Postale Prévoyance has positioned itself as the number two player in the French market.

Health Insurance: Health insurance products are offered by La Banque Postale Assurance Santé which is a joint venture established in 2010 between La Banque Postale and La Mutuelle Générale. La Banque Postale owns 65%. In the first year that products were marketed, beginning in December 2011, more than 42,000 policies were sold.

Property Insurance: Property and casualty insurance products are offered to private individuals through La Banque Postale Assurances IARD, a subsidiary owned 65% by La Banque Postale and 35% by Groupama. It began its sales activities in 2010 and offers automobile, multi-risk household, mobile device, household electrical, audio-visual and IT device and legal protection insurance.

ASSET MANAGEMENT

La Banque Postale Asset Management (LBPAM) is a management company for third-party accounts is a wholly owned subsidiary of La Banque Postale. It holds equity interests in specialised subsidiaries and is the fifth largest management company in France with €137.5 billion in assets under management as of the end of December 2012.

CONCLUSION

In its first seven years of operation La Banque Postale has attempted to reconcile financial and social objectives. Through partnerships and subsidiaries it has greatly expanded its product offerings especially in the fields of insurance and loans. In addition to providing competitive retail banking services to the French population it has been a major source of funds for La Poste.

3. INDIA: INDIA POST FINANCIAL SERVICES

India Post (IP) is state-owned. It is operated by India's Department of Posts (DoP), which falls under the Ministry of Communications and Information Technology. This postal administration has close to 500,000 employees and the largest postal network in the world. In 2011-12, it had 154,822 post offices, 90% of them in rural areas (139,086). IP has had a deficit for many years. Its deficit in 2011-12 was 58,059.23 million Rupees (or 822.2 million Euros, as of April 9, 2013).

IP sees itself as an engine of social and economic development. In addition to providing postal services, it acts as an agency for other government departments and organizations. For example, it operates a pension scheme for the Ministry of Finance and provides wages under the Mahatma Gandhi National Rural Employment Guarantee Scheme for the Ministry of Rural Development.

IP is overseen by the Postal Services Board (PSB), which is the top management body of the DoP. The PSB is made up of a chairperson and six members. One of the six members is responsible for Technology and Financial Services.

EVOLUTION OF BANKING AND FINANCIAL SERVICES AT IP

The post office in India has been providing financial services for well over one hundred years. It introduced money order services in 1880 and the Post Offices Saving Bank (POSB) in 1882. In 1884, it brought in postal life insurance as a welfare measure for its employees. Today, postal life insurance is open to employees working for central and state government departments, universities, nationalized banks, scheduled commercial banks, autonomous institutions and a number of other bodies. In 1995, PI introduced Rural Postal Life Insurance in order to encourage coverage in rural areas.

Over the years, IP has developed partnerships in order to increase its offer of financial services, especially to impoverished rural areas.

At present, this postal service offers a full range of products and services through private and public banks and other providers of financial services. It has partnerships with different banks in different regions. IP has experimented with micro-credit, but its main focus is saving accounts. It still operates the POSB, which is now the largest banking institution in the county. The POSB acts as an agency for the Ministry of Finance and offers small savings schemes on its behalf. Finance pays an annual amount to the DoP for carrying out the savings bank work.

IP does not have a banking licence but hopes to obtain one in the near future.

GETTING A BANKING LICENCE

The idea of setting up the Postal Bank of India (PBI) under the DoP has been around for at least a decade and may be close to becoming a reality.

In November 2012, India's Prime Minister said that the banking system may need to integrate with the post office network in order to move closer to the goal of financial inclusion.

Just a few months earlier, the DoP had initiated a search for consultants to develop a detailed project report for the creation of the PBI. Ernest and Young (E&Y), the consultants that were hired, submitted an interim report in April 2013, which reportedly suggests that the PBI focus on serving the poor in largely rural areas and avoid urban centres that are well served by large banks.

The government appears to be readying itself for the DoP's proposal to create the PBI. A representative recently commented about the process. India's Minister of State for Finance stated that India's central bank - the Reserve Bank of India - has indicated that all commercial banks have been constituted by the government by various Acts of Parliament. He said, "Hence to set up the Post Bank of India (PBI) by an Act of Parliament, necessary legislation will need to be framed and passed by the Parliament. Or to set up the Post Bank as a banking company, the same would require a banking licence from RBI as per the RBI's extant guidelines issued in February, 2013" (Dawn.com).

In February, RBI released its guidelines for granting new banking licences. The guidelines require that interested entities have a past record of sound credentials and five billion Rupees (US $90 million) in voting equity capital and that they meet other terms such as opening at least 25% of branches in unbanked rural centres. Applications for new licences are due on July 1, 2013.

Recent media reports reveal that the politics around the proposal to create the PBI are heating up. An unnamed postal department official has indicated that the finance ministry is not certain that the postal service has the expertise to run a bank. In addition, some large public sector banks are reported to be lobbying against the proposal.

E&Y has stated that they are in the process of submitting their final report which will address the concerns of the finance ministry. They say the plan is to create a new bank, rather than convert the existing savings bank into a new entity. E&Y says this means there will be no need for a large capital requirement in the beginning and that expertise can be built up gradually.

As mentioned earlier, the DoP's proposal for setting up the PBI is expected to focus on rural areas and financial inclusion.

FINANCIAL INCLUSION

Only 58.7% of households in India have a bank account. As a result, financial inclusion is a critical issue in this country.

India's central bank already works with IP on this issue. The central bank picked IP as the delivery provider for some social security benefits because of its reach, especially in rural areas where there is a high concentration of poverty.

IP has more points of access than all the commercial banks combined. It has about 155,000 offices compared to approximately 100,000 bank branches. As indicated earlier, IP has a much greater presence in rural communities than commercial banks. Ninety percent (90%) of its branches are in rural areas. Only 36.9% of bank branches service these locations.

PRODUCTS AND SERVICES

IP offers a range of financial services, including money orders, money transfers, remittances and social security payment services that help people sustain themselves financially and also savings accounts, mutual funds and insurance services that help them increase their savings and security.

IP is currently implementing an IT modernization project to increase services by computerizing and linking the postal network. It has a core banking project that is part of this undertaking. IP says it will implement core banking services in all departmental post offices by 2014. This includes ATM banking, internet banking, mobile banking and phone banking.

This postal administration generates most of its revenue for doing work in connection with savings accounts and savings certificates. At the end of 2012, there were more than 287 million savings accounts and savings schemes.

REVENUES

IP spends more than it brings in. Total revenue only covered 57.6% of expenditures in 2011-2012.

That said, the percentage of total revenue that comes from payments or commissions for financial service work increased between 2006-07 and 2011-2012. The percentage that comes from postal products and services decreased.

In 2006-07, postage and stamps brought in 44.2% of total revenue while payments for savings bank/savings certificate work brought in 46.8% and postal and money order commissions brought in 6.6%. Other services accounted for 2.4% of total revenue.

In 2011-2012, postage and stamps brought in 37.2% of total revenue while payments for savings bank/savings certificate work brought in 54.5% and postal and money order commissions brought in 6.2%. Other services accounted for 2.1% of total revenue.

The annual reports do not indicate whether there was revenue from insurance products and services.

Revenues from Savings Bank/Savings Certificates and Money Orders and Indian Postal Orders (Millions of Rupees)

Year	Remuneration for Savings Bank / Savings Certificates	Commission on Money Orders and Indian Postal Orders	Total Revenues	% of Total Revenue from Remuneration and Commission
2011-12	43,040.80	4,907.79	78,993.47	60.7%
2010-11	35,627.67	4,005.45	69,623.32	56.9%
2009-10	31,327.68	3,398.42	62,667.01	55.4%
2008-09	28,024.60	3,382.97	58,623.26	53.6%
2007-08	24,763.58	3,747.93	54,948.96	51.9%
2006-07	24,900.00	3,538.76	28,438.76	53.4%

Source: India Post annual reports from 2006-07 to 2011-12

4. ITALY: BANCOPOSTA

Poste Italiane SpA (PI SpA) is a public limited company that is wholly owned by Italy's Ministry of the Economy and Finance. It is the parent company of the Poste Italiane Group (PI Group). The group reached profitability in 2002 after 50 years of losing money. PI SpA has 13,676 post offices, about 142,000 employees and over 6,000 ATMs. It has transformed itself over the last decade and a half into a diversified company that operates, not just in the traditional mail market, but also in areas such as parcels, express, insurance, mobile telecommunications and banking. For the last four years running, it has made Fortune Magazine's list of the world's most admired delivery companies.

PI SpA consists of four operating segments: postal, financial, insurance and other services. These services are supplied by business units of the parent company or companies that are part of the Poste Italiane Group.

Its financial services are provided through BancoPosta and offered at all of Post Italiane's post offices.

EVOLUTION OF BANCOPOSTA

Poste Italiane created BancoPosta in 1999 and launched a chequing or current account service in 2000. It has subsequently added new, innovative account products, and a range of financial services.

At first, BancoPosta was a business division of PI SpA. In 2007, it was turned into a business unit with more control. In May 2011, it was converted into an entity called BancoPosta RFC with separate financial reports and ring-fenced capital to protect creditors and provide stability.

BancoPosta does not have a banking licence. It acts as a financial intermediary by providing banking and financial products in partnership with third party companies. The postal administration has a long history of providing financial services through partnerships. It has been offering passbook savings accounts on behalf of Cassa Depositi Prestiti (CDP) since 1875. The Italian government owns 80.1% of CDP.

PRODUCTS AND SERVICES

A Presidential Decree from 2001 sets out the activities of BancoPosta, which include "the collection of public deposits in all their forms, the supply of payment services, foreign currency trading, the promotion and marketing of loans issued by banks and other authorised financial institutions, and the provision of investment services (Post Italiane 2011 Annual Report 280)."

In keeping with the decree, BancoPosta collects public deposits though a variety of savings and chequing accounts. These products have become much more sophisticated over the years.

PI launched “Conto BancoPosta”, an ordinary current account service, in 2000.

In 2008, it launched “ContoBancoPosta Click”, a product that allows customers to manage their current accounts using their personal computer or mobile phone by way of a Poste Mobile SIM card. There are no fixed charges or annual fee. As well, the PostamatBancoPosta Click debit card is free. “ContoBancoPosta Click” is designed to increase PI's position in the internet banking market.

In 2009, PI added the “BancoPosta In Proprio” account to attract private sector customers. This account allows self-employed professionals and small and medium-sized enterprises to pick from among a range of current accounts that are designed to suit specific needs. There were originally four types of accounts: “Web” (primarily for self employed professionals and small companies who operate online); “Pos” (for retail traders and craftspeople); “Condominio” (for administrators of apartment buildings); and “Base” (for small enterprises and in general for people who opt for simple transactions deal with at the post office) (Poste Italiane 2009 Annual Report 60).” In 2011, PI added “Conto BancoPosta in Propio No Profit” for the non-profit sector and “Conto BancoPosta Procedure Fallimentari” for enterprises managing the assets of insolvent entities.

In 2010, it introduced “BancoPosta Piu”, a current account that enables customers who use products linked to their account (e.g. BancoPosta Piu credit cards, direct debits, direct payments of salary and pension) to eliminate account and credit card fees. PI aims to strengthen its position in the current account market with “BancoPosta Piu”.

BancoPosta also offers passbook savings accounts and postal savings certificates on behalf of CDP, a joint-stock company under state control. CDP uses the money from these savings products to finance public investments of general economic interest, such as roads, schools and energy and water projects. The accounts and certificates are guaranteed by the Italian government. BancoPosta is compensated for distributing them.

In addition to accounts, BancoPosta also has an abundance of other financial and banking products and services.

For example, it offers electronic money products (credit/debit/prepaid cards) such the “Maestro” card and “Postepay” card.

“Maestro” is a debit card that is offered in partnership with Mastercard.

“Postpay” is a prepaid card that provides a convenient alternative to cash. It comes in many forms. Most are reloadable. “Postepay standard” is a rechargeable prepaid card that allows people to make transactions anywhere. Other cards helps companies provide luncheon vouchers to staff (Postepay Lunch), let businesses give customers personalized cards bearing their logo (Postepay Virtual) and allow people to use public transit (Postepay&Go) or give gifts (Postpay NewGift). PI says "Postepay", which was launched in 2003, is the most widely used prepaid card in Europe.

BancoPosta also offers some credit products. In 2011, it said it would be launching a new credit card for professionals and small and medium sized enterprises. This card is being developed with Deutsche Bank and Visa.

BancoPosta has offered a money transfer service in partnership with MoneyGram for some time through the postal network. In 2009, it dramatically expanded this offering. Customers now have the ability to send Moneygrams to anyone in the world at anytime, with just a phone or computer. Anyone with a BancoPosta account that is connected to "BancoPosta Online" and "BancoPosta Click" can send money worldwide from a computer. Similarly, anyone with a "Poste Mobile" SIM card that is associated with a BancoPosta account or PostPay debit card can transfer money using their mobile phone.

The 2007 launch of "PostMobile", PI's mobile phone service, has enhanced access to and use of Banocoposta services. "PostMobile" users are able to engage in a number of financial transaction such as checking accounts, paying bills, sending telegrams, transfering money to and from "Postepay" prepaid cards and topping up "PosteMobile" SIM cards from a BancoPosta account.

BancoPosta also offers loan products. For example, it introduced a product called "Quinto BancoPosta" in 2008, which is a personal loan that is secured based on the borrower's income. The product is aimed at full-time workers and pensioners. In 2010, BancoPosta created a loan to promote renewable energy sources and environmental protection in partnership with Enel.si, a company that is owned by Enel SpA, Italy's largest power company. It has many other loan products, including loans for newlyweds and new parents, children's school fees, medical and dental emergencies and one that has round repayment amounts that are easy to remember.

As well, BancoPosta introduced "Trading On Line" (TOL) in 2011. This service allows customers to buy and sell stocks on line, without going to a post office.

The products and services described above are just a sample of what is available through PI's BancoPosta.

PROFITS AND REVENUES

This paper looks at the profits and revenues generated by the financial products and services of BancoPosta between 2007 and 2012.

It does not consider the contributions of other financial services offered by the Poste Italiane Group.

BancoPosta had revenues of €5,319 million 2012, up from €5,141 million in 2011.

The bulk of BancoPosta's revenue (61%) comes from investing postal current account deposits and from fees for the collection of postal savings deposits ($3,132,825 in 2011, similar information not available in 2012).

BancoPosta also brings in a significant amount of revenue (21%) from processing bills and current account services ($1,076,885 in 2011, similar information not available in 2012).

As well, it has many others services which collectively generate about 18% of revenue ($931,023 in 2011, similar information not available in 2012). See Table 1.

Table 1

Revenues from BancoPosta Services in 2011 (Thousands of Euros)

Services	**Revenues**
Income from investment of postal current account deposits	1,628,775
Fees for collection of postal savings deposits*	1,504,050
Commissions on bills processed	594,794
Other revenues from current account services	482,091
Insurance brokerage	262,707
Income from delegated services	179,244
Distribution of loan products	166,754
Fees for issue and use of prepaid cards	95,796
Fees from securities placement and trading	89,048
Money transfers	70,735

Securities custody	21,437
Distribution of investment funds	10,793
Other products and services	34,509
Total	***5,140,733***

Source: Poste Italiane annual report for 2011

** Fees associated with Postal Saving Certificates and Post Office Savings Books*

BancoPosta Revenues from 2007 to 2012 (Thousands of Euros)

Year	BancoPosta Revenues	Revenue as % of PI SpA revenue
2012	€ 5,319,000	60.1%
2011	€ 5,140,733	56.5%
2010	€ 4,961,743	54.6%
2009	€ 5,039,417	55%
2008	€ 4,781,471	524%
2007	€ 4,708,893	51.6%

Source: Poste Italiane annual reports from 2007 to 2012

BancoPosta revenue consistently grew from 2007 to 2012, with the exception of a slight dip in revenue in 2010.

In 2007, BancoPosta revenue accounted for 51.6% of total PI SpA revenue, whereas revenue from mail and philately accounted for 45.2% and revenue from express delivery, logistics and parcels brought in 2.4% of the total.

By 2012, BancoPosta revenue accounted for 60.1% of total PI SpA revenue, whereas revenue from mail and philately accounted for 37.5% and parcels and express contributed to 1.4% of the total.

In short, PI SpA's innovation and diversification in regard to BancoPosta products and services has boosted revenue and allowed it to compensate for the loss of revenue from traditional mail volumes.

Net profits of PI Group, PI SpA and BancoPosta from 2007 to 2012
Net profits (Millions of Euros)

Year	PI Group	PI SpA	BancoPosta
2012	€1,032	€ 722	€ 343
2011	€ 846	€ 699	*€ 256
2010	€1,018	€ 729	n/a
2009	€ 904	€737	n/a
2008	€ 882.6	€ 721	n/a
2007	€ 843.6	€ 704	n/a

Source: Poste Italiane annual reports from 2007 to 2012; Post Italiane media release, March 27, 2013

** Net profits for eight months in 2011. First results attributable to BancoPosta's ring-fenced capital.*

In 2012, BancoPosta earned net profits of €343 million, or 47.5% of PI SpA's net profits (33.2% of PI Group).

The PI Group says its overall financial results demonstrate it "has successfully anticipated the relaunch of the post office system, and has also embarked on the exploration of new financial services." It believes its success has "paved the way for an innovative model that now serves to inspire the strategies of similar large groups within Europe (Post Italiane, Company profile 2)."

5. SWITZERLAND: POSTFINANCE

Swiss Post Ltd. (SP Ltd.) is the public postal operator in Switzerland. It is currently being converted from a federal public institution into a public limited company. This company will be state-owned. The conversion will be finalized on June 26, 2013 and retroactive to January 1, 2013.

SP Ltd. is the parent company of the Swiss Post Group (SP Group). The group currently consists of units, supporting units and subsidiaries. Units include PostFinance, PostBus, PostMail, PostLogistics, Swiss Post Solutions and Post Offices & Sales.

After conversion to a public limited company, there will be three subsidiaries - Post Finance Ltd, PostBus Switzerland Ltd. and Post CH Ltd. - operating under the umbrella of the parent company SP Ltd.. Post CH will be comprised of the former units called PostMail, PostLogistics, Swiss Post Solutions and Post Offices & Sales. As in the past, other subsidiaries will operate as legally autonomous companies that the SP Group solely manages or controls, either directly or indirectly.

The SP Group has 25 subsidiaries in Switzerland and 41 in 10 other countries. It employs 62,058 people (or 44,605 full-time equivalents) and is the second largest employer in Switzerland. SP says it has been profitable ever since it was created following the separation of postal and telecommunications in 1998.

The parent company, SP Ltd., has 1,757 post offices and 497 private postal agencies. It has a legal mandate to provide adequate universal postal and payment services throughout the country. It is allowed to fulfill parts of this mandate through third parties or outsourcing.

SP Ltd. offers financial services though PostFinance (PF). PF has a long history of providing financial services. It has built its business, primarily by partnering with other companies and keeping pace with technology. Notably, the Universal Postal Union put SP Ltd. at the top of its postal e-services development index in 2011.

PF employs 3,479 full-time equivalents and has over 2.6 million private customers and 300,000 business customers.

PF does not have a banking licence, but will shortly.

EVOLUTION OF POSTFINANCE

PF's foundation was laid over a hundred years ago when National Councillor Carl Koechlin of Basel introduced the first postal checking account in Switzerland.

Over time, this foundation has grown with advances such as the introduction of Post ATMs for cash withdrawals in 1978, even before other banks had ATMs.

Postal financial services have evolved significantly in the last decade and a half.

In 1997, PF developed investment products with the Swiss Bank Corporation. It was prohibited from entering this business on its own by the Postal Act.

In 1998, it became one of the first providers to offer online banking in Switzerland. PF also entered the insurance business with Winterthur Life Insurance.

In 2000, it launched its own website with electronic services and information about products.

Between 2001 and 2002, it ensured that its main business of payments was keeping pace with advances in technology by developing a system of secure payment for the Internet.

In 2003, PF started to work with mobile phone companies. It also entered the lending and mortgage business by partnering with UBS, Switzerland's biggest bank. As with investment products, it was not allowed to enter this business on its own under the Postal Act. PF added new partners with mortgage products in 2008 and 2009 (Münchener Hypothekenbank eG and Valiant).

With the addition of mortgage and loan products in 2003, PF announced that it was now "a fully-fledged retail financial institution". (PostFinance 2003 Annual Report 6)

GETTING A BANKING LICENCE

PostFinance has been campaigning for a banking licence for over 10 years and is finally going to get one. First, it has to meet conditions set out by the Swiss Financial Market Supervisory Authority (FINMA). This includes making PF into a limited company.

As a result of changes to postal legislation, PF will be converted to a subsidiary that is a limited company subject to regulation by FINMA. It will have its own management and report to its own Board of Directors. PF will be granted a banking licence once this changeover occurs, probably towards the end of the second quarter of 2013. Nevertheless, it will not be able to independently offer loans and mortgages, which are lucrative but riskier products, because of a prohibition on such activity in the postal legislation.

A PF spokesperson has stated that coming under the supervision of FINMA will enhance transparency and trust, as customers will know that their interests are being safeguarded by FINMA. He also said it would bring PF one step closer to its dream of being able to operate in the lucrative loan and mortgage market.

The Swiss Bankers Association has concerns about having a state-backed bank, but it has indicated that it will not complain about PF's banking licence because PF will not be allowed to offer the same services as other banks.

PRODUCTS AND SERVICES

Today, PF offers a comprehensive range of products and services for individuals, associations and businesses, with a focus on payment transactions. PF says it leads the payment transaction market in Switzerland.

PF has an array of accounts, including accounts for payment transactions in Swiss Francs, Euros or foreign currency, as well as youth and student accounts with a preferential interest rate. As well, it has an account which allows people to make free cash withdrawals at third-party ATMs in Switzerland and elsewhere. It has capital accounts that are designed for businesses, plus children and gift accounts that are designed for parents, legal guardians and relatives. It also has regular and electronic investment accounts.

PF also offers a number of products and services that facilitate payment transactions. It has “e-finance” which allow customers to access their accounts in order to handle financial transactions on line and “e-bill” which allows them to receive bills electronically through “e-finance” and then pay with three clicks. As well, it has “National payment” options which allow customers to make regular, automatic payments, pay invoices on set dates, pay bills directly, have cash delivered by a postal employee and use invoicing slips. In addition, “International payment” options let customers transfer money in a variety of ways. “Post Finance Mobile” lets them check balances, transfer money, trade securities or scan inpayment slips to pay bills. People can also get an International Bank Account Number, purchase and sell foreign currencies and pay for travel in many ways (a PostFinance Card Direct, a reloadable Travel Cash Card, Travelers Cheques, Credit Cards or with cash that is delivered to any address in Switzerland).

PF has some specialized payment transaction services for businesses. It has options for making and collecting payments, invoicing, and processing salary payments. It also has services that allow businesses to have payment orders that are charged against a postal account delivered by a third party bank and send account statements to a third party bank.

In addition to accounts and products and services that facilitate payment transactions, PF offers credit cards, other financial cards and instruments for investments, mortgages and other financing as well as retirement planning.

PF has support services as well. Product comparisons help people pick products that suit their needs. There is also online advice on subjects such as liquidity planning and a personal advice service with financial advisors to help with specific issues. The advisors even operate in the evenings and on Saturdays.

PF products and services are available through traditional post offices and many are available on-line. In addition to being easy to access, PF products and services are easy to understand. The PF web menu is very simple to navigate, product descriptions are in clear language and help is available if needed. In the words of PF, “We offer user-friendly, attractively-priced products and our friendly staff are always happy to help.”

PROFITS AND OPERATING RESULTS

Profits and Operating Results of Swiss Post and Operating Results of Post Finance from 2007 to 2012 (Millions of Swiss Francs)

Year	SP Group Profits	SP Operating Results	Post Finance Operating Results	PF operating results as % of SP operating results
2012	859	890	627	70.5%
2011	904	908	591	65.1%
2010	910	930	571	61.4%
2009	728	721	441	61.2%
2008	825	812	229	28.2%
2007	909	866	318	36.7%

Source: Swiss Post annual reports from 2007 to 2012

Profits and Operating Results of Swiss Post and Operating Results of Post Finance from 2007 to 2012 (Millions of Euros*)

Year	SP Group Profits	SP Operating Results	Post Finance Operating Results	PF operating results as % of SP operating results
2012	706	731	515	70.5%
2011	743	746	486	65.1%
2010	748	764	469	61.4%
2009	598	593	363	61.2%
2008	678	667	188	28.2%
2007	747	712	261	36.7%

Source: Swiss Post annual reports from 2007 to 2012

**Converted from francs to Euros on April 2, 2013 using the XE CURRENCY CONVERTER, http://www.xe.com/currencyconverter/*

This paper looks at the operating results or profits generated by PF's products and services between 2007 and 2012.

PF's operating results grew from 2007 to 2012, with the exception of a decrease in results in 2008. The SP annual report for this year indicates that the dip was related to the financial crisis. PF had to post writedowns of 179 million Swiss Francs on its investments.

However, the financial crisis also appears to have benefited PF. It experienced a sharp uptake in customers in 2008. The number of customers increased by 120,000 and the number of customer accounts increased by 311,000.

In 2012, PF had operating results of 627 million Swiss Francs (515 million Euros). This is 70.5% of SP's operating results. Postal-related units accounted for a much smaller proportion of SP's operating results.

6. UNITED KINGDOM: POST BANK

On April 11, 2013 Post Office Ltd. announced that it would launch into the current account market during the spring of 2013. While details remain scarce, it does not appear that the initiative is designed to address issues of financial exclusion or present a true alternative to the current lending practices of the major banks. Nevertheless the Post Office is positioning itself to becoming one of the largest providers of financial services in the United Kingdom.

Already, even prior to launching its own current account, Post Office Ltd. is a major player in the business of retail financial services in the UK. With 11,800 branches nationwide, the Post Office has more branches than all of the UK high street banks combined.

At its branches customers can access a wide range of services including savings, loans, mortgages, insurance, foreign currency exchange, travel insurance and credit cards. Through relationships with several partner banks, the Post Office also provides personal banking services, such as access to cash withdrawals and balance enquiries to almost 80 per cent of all UK debit card holders. Three million Post Office Card Accounts, which are simple bank accounts for those receiving benefits, state pensions and tax credit payments, are managed by the Post Office. The Post Office is one of the country's largest cash handlers, processing around £70 billion of cash and £636 million of coinage every year. In addition the Post Office serves the "front office of government" offering an extensive range of government services.

POST OFFICE LTD. IS SEPARATE FROM ROYAL MAIL

Effective April 1, 2012 Post Office Ltd ceased to be a Royal Mail Group operating business. Now Royal Mail Group and the Post Office are separate companies although both remain wholly owned by the Government for the time being. As part of a ten year agreement signed in January 2012 Royal Mail will continue to use the Post Office to deliver the full range of Royal Mail products. These include providing information on services and accepting postal items and payment for first and second class post, parcels, air mail, recorded and special deliveries on behalf of the two collection and delivery divisions of the Royal Mail group, Royal Mail and Parcelforce. The Post Office will also sell postage stamps (including commemorative stamps and other philatelic items), airletters and international reply coupons and accept applications for redirection of mail. Poste restante mail will also be held for collection by people travelling.

The Postal Services Act 2011 which provided for the separation of Post Office Ltd. and Royal Mail also provided for significant changes in the future ownership structures of both Post office Ltd. and Royal Mail.

Under the Bill, the Royal Mail will be sold to private investors, with at least 10% of the shares going to its employees, the largest employee share scheme of any privatisation for 25 years. News reports in February 2013 state that government Ministers are in advanced talks about giving the shareholding to staff at Royal Mail, who could be offered attractive incentives to buy shares or even be offered them for free. It was also reported that the Government is considering the options of stock market floatation or sale to a rival or private equity fund. The privatisation will be the country's biggest for more than 25 years, since the British Telecom and British Gas shares sales in the 1980s.

The legislation also contemplated a possible move to a mutual ownership structure for Post Office Ltd. Government consultation documents say that a mutual "is generally an organisation that is owned by, and run for the benefit of, current and future members, and has no external shareholders". Section 7 of the Act states that the main purpose of the mutual will be "to act for the public benefit by promoting the use by the public of services provided by a Post Office company or at its post offices". It also states that the members of the mutual must have an interest in the use of the services of the mutual by the public and may include employees and their representatives. The National Federation of SubPostmasters supports mutualisation and has reported that the process is well underway with organisations and companies affected being consulted about details of the proposal.

THE RETAIL NETWORK

With 11,800 branches nationwide, the Post Office is the largest retail and financial services chain in the UK. Almost 99% of the UK population lives within three miles of a post office. Approximately half of all small businesses and almost 20 million customers visit a post office per week.

The current network consists of a blend of public and private ownership.

Crown offices are large post offices typically located in town centres. They offer a complete range of services. They are directly owned and operated by Post Office Ltd, and employ around 5,000 staff.

There are also franchise arrangements with other large retailers. These branches offer the full range of post office services over multiple counters.

Sub post offices make up the majority of the network. They are independent businesses run by sub postmasters. They can be self standing post offices in their own right; the local village shop; or housed inside another larger shop. Of these agency branches, some 4,000 are located in association with the four largest supermarket chains. There are over 9,000 subpostmasters who receive a fixed core tier payment, and are paid for annual leave and sick leave. On top of the fixed core payment, subpostmasters are paid per transaction.

There are also over 750 Satellite or Outreach services, which ensure that communities are still able to access post office products and services where a traditional post office is not viable or practical. They take a variety of forms, including mobile post office vans and hosted services in pubs and village halls.

PAST CLOSURES

For many years there was an emphasis on downsizing the network as a means of generating greater efficiencies. As seen in Table 1 there was a very considerable reduction in directly operated Crown Offices during the 1990's. Many of these closures involved transferring operations to franchises. The most significant number of outright closures occurred during the past ten years. During this time there were two Post Office modernisation programmes; the Urban Network Reinvention Programme and the Network Change Programme which together were responsible for the closure of 5,000 offices. These programs proved to be very unpopular and over three million people signed petitions requesting the government to stop the closures.

Table1: Number of Post Offices

	Directly Operated (Crown Offices)	Franchise/ Modified	Sub-post Offices	Satellite / Outreach	Total
1980	1,583	0	21,056		**22,639**
1990	1,338	153	19,138		**20,629**
2000	598	929	16,866		**18,393**
2010	373	425	10,174	933	**11,905**

In addition to declining number of branches the past decade has witnessed a decline in customer traffic during the past decade. Over 8 million customers have stopped using the post office during the past 10 years. Post Office Ltd argues that this trend is "largely driven by the reduction in government services and a shrinking consumer mails market in an increasingly digital world." Indeed, revenue from government services fell sharply from £576 million in 2004-5, to £167 million in 2009-10, mainly due to moves to direct payment of benefits and increased online substitution. Despite successfully developing revenue streams, such as its telephony business expanding its personal financial services, the Post Office has been unable to fully replace the lost revenues.

FUTURE TRANSFORMATION

In 2010 the government announced that the Post Office would undergo a major transformation of its operations.

For its part the government made the following commitments:

- Recognition that the Post Office is more than a commercial entity and serves a distinct social purpose and that post offices remain a valuable social and economic asset for communities and businesses;
- There will be no programme of post office closure under this Government;
- The Post Office will not be put up for sale;
- There will be a provision of £1.34 billion for the Post Office to modernise the network and safeguard its future, making it a stronger partner for Royal Mail;
- the Post Office will become a genuine Front Office for Government at both the national and local level;
- There will be an expansion of accessible affordable personal financial services available through the Post Office;
- The Government will support greater involvement of local authorities in planning and delivering local post office provision; and
- The opportunity will be created for a mutually owned Post Office.

MAIN AND LOCAL POST OFFICES

The government also announced a sweeping transformation of the network of 11,500 offices. As part of the Network Transformation programme fully 4,000 offices will be transformed into new-style Main Post Offices and 2,000 offices into Post Office Local branches.

Main post offices will consist of larger non-Crown operations which will be either updated or moved to a new location. They will be located in large retail operations such as WH Smith, Co-op or Spar and will be run in partnership with those who own the business. They will offer all existing services and have a specific place set aside for Post Office activities.

Local post offices will consist of conversions of smaller post offices, within retail shops. The post services will no longer be offered at the back of the retail store but will instead be moved to a place near the check-out counter. Full integration into the store will permit the post office to extend the hours of operations. Local post offices will not offer all existing services. Services will include posting letters and parcels, paying bills, collecting a pension, benefits or cash, picking up pre-ordered travel money and other core services. "Local" post offices will *no longer* offer many services, currently available from the majority of post offices including posting of international parcels and any parcels weighing over 20kg; Parcel Force Express Services parcels, manual cash deposits and withdrawals, payment by cheques, Post Office financial services and insurance products, manual bill payments services, passport, car tax and Driver and Vehicle Licensing Agency services, and on demand foreign currency.

CROWN CLOSURES AND PRIVATIZATION

Despite the commitment of the government in 2010 that there would be no program of postal closures the Post Office announced in February 2013, plans to franchise and close 70 Crown post offices. Coupled with plans to combine several other Crown post offices the total number of closures comes to 76.

The Communications Workers Union, other postal unions, the labour movement and many supportive organizations have launched a campaign, including work stoppages at Crown post offices, to attempt to convince the Post Office to abandon its planned closures.

THE CAMPAIGN FOR A POSTAL BANK

The April 2013 announcement that the Post Office would launch into the current account market during the spring of 2013 must be seen in the context of the history of postal banking in the UK and the campaign for a Post Bank led by the Post Bank Coalition.

Postal banking in the UK began in 1968 with the establishment of the Girobank by the Labour government of Harold Wilson. The purpose was to extend access to banking services to the majority of the working class population who did not have bank accounts. The government also used the Giro by making social security payments through the service.

The Giro was very successful. By the late 1970's the renamed National Girobank was receiving 25% of all cash deposited in banks in the UK. New services, including personal loans, overdrafts, credit and debit cards were added. The Giro was profitable and its rate of return on capital was higher than that of the commercial banks.

The Giro was also successful from an operational perspective. It was the first bank in Europe to adopt optical character recognition technology; the first UK bank to offer free accounts to individuals; the first bank to offer interest-bearing current accounts, and the first bank in Europe to offer telephone banking service. It is widely credited for forcing competitors to innovate and better respond to the needs of the mass market.

In 1989 the Conservative government of Margaret Thatcher decided to privatize the Giro and its operations were auctioned off to the Alliance & Leicester Group.

Since the end of its contractual obligation to provide exclusivity to Giro the Post Office has considerably expanded its offering of banking and financial services through service agreements with a number of banks and financial institutions. The most important of these relationships has been with the Bank of Ireland

Since 2004 Post Office Limited and Bank of Ireland have built a hugely profitable business providing a range of financial services using the Post Office network of branches. Some three million Post Office customers already use products such as savings accounts, mortgages and insurance policies which are accessed through the post office and managed by the Bank of Ireland. The two organizations share the profits on a 50-50 basis. In 2012 the Post Office announced a three-year extension to its relationship with Bank of Ireland until 2023.

At the same time that it was working with the Bank of Ireland the Post Office was entering into commercial arrangement with many of the major banks to provide access to their current accounts through the Post Office network. Today the public can make current account withdrawals at a post office from 14 of the largest banks and make deposit cash or cheques into 10 of the largest banks. Over 86% of bank account holders can access their current accounts at all branches of the Post Office.

However Post Office access to the current accounts of the major banks does nothing to address the problems associated with the credit and lending policies of the major banks and in no way addresses the exclusionary practices which have resulted in almost three million unbanked persons in the UK.

It was to address these problems, and other inadequacies in the current UK banking industry that led to the formation of the Post Bank Coalition in 2009 for the purpose of advocating the establishment of a Post Bank based on the Post Office network. The Coalition, comprising postal unions, pensioners the Federation of Small Business and research institutes has campaigned for the establishment of a publicly owned postal bank with the following objectives:

- Revive and protect the post office network
- Support local economies and small and medium size businesses
- Combat social exclusion and financial inequalities
- Introduce diversity into the retail banking system

In December 2009 the Labour government initiated a consultation process on expanding post office banking. During the next three months over 2,400 responses were received.

In March 2010 the government announced plans to expand post office banking including:

- Establishing a Post Office current account
- Deepen and widen the relationship between the Post Office and credit unions to improve the supply of affordable credit for low income households
- Increase access to the current accounts of other banks at Post Office counters
- Establish childrens' savings accounts
- Explore the development of a Post Office business bank account
- Increase government funding for the network of post offices
- Establish a 10% down payment mortgage targeted at first time home buyers

With the change of government in May 2010 most of these proposals came under review.

The April 2013 announcement that Post Office Ltd. would launch a current account in association with the Bank of Ireland was met with muted optimism by members of the Post Bank Coalition. Billy Hayes, General Secretary of the Communications Workers Union welcomed the launch of a trial current account at the Post Office as a well-overdue development which will help to bring greater access to banking to many communities. He also stated it was a shame the opportunity was missed to launch a true Post Bank which could offer a genuine alternative to High Street banking. The National Federation of SubPostmasters (NSFP) also noted that the announcement, while welcome, nonetheless fell well short of the state-backed Postbank at post offices, which the NFSP had long called for.

FINANCIAL FUTURE UNCLEAR

It remains to be seen what impact the new current account initiative will have on the future of the Post Office.

Certainly the Post Office has proven that it can provide excellent service for a range of financial services. For the sixth year running, the British Travel Awards cited the Post Office as the "Best Travel Insurance Provider" and the "Best Foreign Exchange / Travel Money Provider" for the fifth year running. Post Office Limited also won "Best Savings Provider" at the MoneySupermarket 2011 Supers Awards. It is also the UK's leading supplier of foreign currency exchange with a 25% market share.

Unraveling the actual financial picture of Post Office Ltd. has its challenges, in part as a result of the subsidies received from the government. Consider the following explanation from the 2011-2012 Annual Report:

On 24 March 2010 a funding agreement was agreed that provided up to £180 million for compensation for losses sustained in parts of the network in 2011-12 as well as providing access to the working capital facility of £1.15 billion to 31 March 2012. These arrangements received State Aid approval on 21 March 2011. A further funding agreement with Government was announced on 27 October 2010 which provided for:

- Funding of £410 million for 2012-13
- Funding of £415 million for 2013-14
- Funding of £330 million for 2014-15
- Extension of the existing working capital facility of £1.15 billion up to 31 March 2016

State Aid approval for the funding for 2012 -13 to 2014 -15 was received on 28 March 2012 and it was also recognized that the working capital facility was no longer deemed State Aid.

Considering these subsidies Post Office Ltd. Has reported profit after modernisation costs of £59 million in 2011-12, £21 million in 2010-11 and £33 million in 2009-10.

From a revenue perspective financial services have played a very important role in this recent financial success. During the past ten years financial services has consistently accounted for about 30% of Royal Mail's overall revenues. This is likely to increase as a result of the new financial services and banking initiatives.

CONCLUSION

The Post Office provides an important example of the potential for postal administrations to leverage their large retail networks to offer their own brand of financial services while offering an extensive network of access points to banks and other providers of financial services.

7. CANADA: CANADA POST

Canada Post Corporation (CPC) is state-owned. It was converted from a government department to a Crown corporation on October 16, 1981. The corporation operates the largest retail network in the country with 6,400 post offices and outlets. About 3,900 of the offices and outlets are public while 2,500 are privately-operated. CPC employs almost 55,000 employees and delivers to over 15 million addresses in one of the largest countries in the world. It lost money in 2011 after being profitable for 16 years. It returned to profitability in 2012. The losses in 2011 were largely due to one-time costs while the profits in 2012 were due to one-time savings.

CPC is the parent company of the Canada Post Group of Companies. The group includes CPC and its subsidiaries, Purolator Inc., SCI Group Inc. and Innovapost Inc..

This postal administration has both a physical and digital delivery network (e-post). It offers traditional postal services, some government services and very limited financial services. CPC offers Moneygram payments and sells postal money orders, Visa gift cards and Visa reloadable cards. In addition, it has a personal identification number (PIN) reset service for chip credit card holders.

CPC used to have a savings bank.

It continues to provide banking services in association with financial institutions in a number of remote communities. For example, the Bank of Montreal has a sub-branch in Nain, Labrador at a CPC office.

THE PAST

The Parliament of Canada adopted the *Post Office Act* establishing a post office savings bank system just after Confederation in 1867. The system began operating in 1868.

The Post Office Savings Bank was created because of a belief in "government involvement in or sponsorship of savings banks, and the need to encourage thrift habits among the working classes (Government of Canada, Canadian Museum of Civilization)."

It initially flourished but started to decline after chartered banks lobbied for a lowering of the interest rate on deposits. Postal authorities in the early twentieth century contributed to this decline with their unfavourable view of the role of government institutions in the banking sector. They decided to abandon the Post Office Savings Bank in 1968.

However, when the post office became a Crown corporation is 1981, then President Michael Warren argued for an increase in financial services at retail counters.

Warren noted that there were 2,000 communities in Canada which had a post office but no bank and suggested that the postal service could step into this service vacuum.

Postal banking emerged as an issue again in 2005. Canada's Library of Parliament produced a research paper arguing in favour of CPC offering financial and banking services. It noted that "today's postal administrations can either sink, while continuing to complain about declining mail volumes and electronic alternatives in the world of rapid technological change, or swim, by harnessing new technology, forming new business partnerships, and adopting new ways of doing business to create new products and services that will help them boost their performance and their earnings. From this perspective, the financial services option would seem to be the logical way to ensure the Canadian postal system's viability. (Library of Parliament 20)"

More recently, in 2010, former CPC President Moya Greene told a standing committee of Canada's Senate that she was giving serious consideration to providing "a more traditional and generalized banking offer (Senate of Canada 4:48)."

TODAY

Deepak Chopra, CPC's current president, does not think that the post office should get into banking because the corporation does not have the "expertise". The corporation has indicated that it has looked at the issue, but has not shared its research.

Recently, CPC commissioned a report by the Conference Board of Canada entitled *The Future of Postal Service in Canada.* The report said that it did not explore financial services as an option for the future because "Canada has a highly developed financial services sector (Conference Board of Canada 7)." However, it spoke favourably about postal banking in countries like Switzerland that also have highly developed financial service sectors.

In addition to CPC, other segments of society may not support the idea of the post office getting into banking. For example, established financial institutions may not look kindly on a strong new player in the financial services market.

Nevertheless, it can be argued that many people stand to benefit from a public postal bank. There is a growing unease about the state of financial and banking services in Canada. Many communities do not have a bank. More than 2,000 bank branches closed between 1990 and 2002, mainly in rural and low-income areas. There have been 822 closures since this time (as of May 31, 2013). In addition, a significant number of low-income individuals do not have a bank account or have a precarious relationship with a mainstream financial institution. Some of these people are using fringe financial institutions (FFIs) that charge them interest rates well above those charged by banks and credit unions. Many people also have concerns about money transfer organizations (high fees) and mainstream financial institutions (high fees, huge profits). Financial service corporations in Canada made an average 23% profit margin during the last decade compared to an average 7% profit margin for firms in non-financial industries. Canada's big six banks made record profits of $29 billion in 2012. This is 15% more than they made in 2011 and more than double their profits from 2009. As a result, some groups are pushing for financial service improvements and even postal banking.

Democracy Watch (DW) and the Canadian Community Reinvestment Coalition (CCRC) are demanding dramatically improved bank practices and services, including:

- A prohibition on any future service charge or credit card interest rate increases if the bank can't prove the increase is justified;
- Improvements to the ombudsman process;
- The right of customers to access the money they deposit by cheque as soon as the cheque clears;
- The disclosure of the profit/loss record for any branch that is facing closure to allow for a full review of the reasons for the closure;
- An increase in penalties for violating the *Bank Act;*
- The provision of detailed information on loans, investments and services to customers so that it is possible to track whether banks are meeting the needs of individuals and businesses on a community-by-community level;
- A requirement for corrective action if banks are not fairly meeting customer needs.

DW is a national citizen advocacy group. The CCRC is national coalition of anti-poverty, consumer, community economic development, labour and small business groups that work together to address concerns about financial institutions.

In addition to the concerns of DW and CCRC, some individuals and groups have specific concerns about the way banks and other financial businesses treat different segments of society.

A 2010 report prepared for the Aboriginal Business Development Centre calls on banks and credit unions to make changes to meet the needs of unbanked and precariously banked individuals who are increasingly using FFIs. It also suggests creating a new institution that is designed to meet the needs of low income-individuals. The report recommendations flow from a survey that was administered to clients of FFIs in Prince George, British Columbia. The survey found that well over half of FFI users were unemployed, that 60% were Aboriginal, that 88% had accounts at mainstream financial institutions at some point, and that half of them still used their accounts. Survey respondents gave a variety of reasons for using FFIs instead of mainstream institutions. Thirty percent (30%) of respondents cited convenience factors such as hours and location. Just under 10% of respondents cited ID requirements as a reason for using FFIs. Some respondents cited the practice of placing a hold on cheques as a significant reason for using FFIs. Others reported that they did not feel welcome in mainstream institutions. As mentioned earlier, about 50% of respondents use FFIs as well as banks or credit unions. The report indicates that these respondents appear to have a precarious relationship with mainstream banks so they turn to FFIs when they run into financial difficulties.

The Canadian chapter of the Association of Community Organizations for Reform Now (Acorn Canada) also wants improved financial services. Acorn Canada has been campaigning for more affordable remittance services because of the predatory fees that are charged by many money transfer organizations. They are demanding that the total charges for sending remittances through money transfer organizations be capped at 5% and that these organizations be required to disclose the full cost of the remittances they offer. Acorn is an independent national organization of low and moderate-income families.

Jagmeet Singh, a Member of Provincial Parliament in Ontario, has some of the same concerns as Acorn Canada. He believes it is unfair for people in Canada to be paying fees of 15% or 20%. Singh has introduced a private members bill to limit the amount that a money transfer organization like Western Union is able to charge on international transfers. If passed, Singh's bill would cap consumer fees in Ontario at 5% of the money that is transferred. It would also make fees more transparent.

Universal Postal Union (UPU), the United Nations agency that acts as a forum for cooperation between postal sector players, believes that many postal operators have played an important role in reducing the cost of international money transfers and that many more could do likewise. The UPU has developed an electronic money transfer system and is asking member countries to adopt and use this system to create a global remittances network using post offices. So far, about 60 Posts are participating. Canada Post has not yet agreed to sign on to the system.

In spite of Canada Post's reluctance to expand its financial services, a number of organizations want the corporation to expand for the good of the public and Canada Post.

The New Democratic Party (NDP), the official opposition party in Canada's House of Common, recently issued a media release that encourages Canada Post to deliver lucrative financial and banking services instead of cutting as suggested by the Conference Board report on the future of postal service.

As well, an NDP riding association submitted a resolution to the NDP Convention in April 2013 that raises concerns about banking fees and calls on the party to develop a plan to implement postal banking and other service expansion measures at Canada Post. The resolution did not make it to the Convention floor.

In addition, the Canadian Union of Postal Workers wants Canada Post to reconsider its focus on cutting and instead follow the example of other postal administrations around the world by expanding revenue-generating services like banking.

UPU also thinks post offices should be looking at expanding financial services. It has produced a global roadmap for the future. This roadmap calls for the continued development of postal networks along three dimensions – physical, financial and digital/electronic.

CONSIDERATION OF DIFFERENT MODELS

There is a range of options or models Canada Post could consider. The corporation could set up its own bank or act as a financial intermediary by providing services in partnership with banking and financial institutions, including credit unions. It could work with one or a number of banks and these institutions could operate nationally or in different regions. As well, it could offer a broad or narrow range of financial services. CPC could also combine models.

All that is needed to explore these options is a willingness on the part of Canada Post and a plan to deal with potential opponents of postal banking. Many postal observers believe that the financial industry would be the most significant opponent.

It is worth noting that the aforementioned research paper by the Library of Parliament cautioned those who might oppose the idea of CPC getting into banking to wait and see what form this new entity might take before expressing a point of view. It also speculated that financial institutions might accept a postal bank if it opened the door to bank mergers, pointing out that a postal bank could take up the slack in communities abandoned by newly merged banks and also improve the level of financial services.

That said, there is not much talk of bank mergers in Canada these days. They are not popular with the public. Also, Canadian banks did fairly well during the global financial crisis, undermining the “bigger is better” logic of a merger.

Even without the incentive of bank mergers, financial institutions might actually be interested in some models of postal banking, such as the partnership model.

However, Canada Post would be wise to consider all models to ensure that it is able to maximize service to the public, meet its objective of financial self-sufficiency and promote financial inclusion, especially in rural and low-income areas where banks do not compete or provide adequate service.

CONCLUSION

The six case studies confirm Anson's and Toledano's observation that “there is no one size fits all model of postal finance”. Postal administrations in Brazil, France, India, Italy, Switzerland and the United Kingdom offer different kinds of banking and financial services and have different relationships with their financial arms, partners and governments. Their financial systems are quite varied, unlike their postal systems, which tend to be remarkably similar.

One possible explanation for the diverse nature of postal finance may lie within the disparate nature of the banking systems in the various countries. It is possible that postal banks and financial units have evolved around these systems and are filling needs that are not being met. Put another way, postal banks or financial units would not succeed if private sector banks were meeting the requirements of all groups within society, such as the poor. But they are succeeding if profits and revenues are a measure of success.

Revenues or profits from financial and banking services increased at at least four post offices between 2007 and 2012. By 2012, BancoPosta brought in 60.1% of Post Italiane SpA's revenues and 47.5% of its net profits. India Post's financial services brought in 60.7% of India Post's total revenue and PostFinance was responsible for 70.5% of Swiss Post's operating results. In France, La Banque Postale earned profits of €574 million and paid La Poste a dividend of €186 million. Correios in Brazil does not provide information on revenues or profits from its financial services but this part of the business appears to be thriving. It is training 18,000 postal clerks to offer banking services. The Post Office Ltd. in the UK does not provide segregated information, but is also increasing services by offering a current account.

As indicated earlier, these results suggest that postal administrations in Brazil, France, India, Italy, Switzerland and the United Kingdom are meeting needs, which may include the need for economic development and financial inclusion. Notably, financial inclusion is a shared goal for most of the postal administrations.

This paper has outlined the need for financial inclusion in Canada. Any study that examines the feasibility of expanding financial services and introducing banking services at Canada Post should consider inclusion. The case studies suggest that it would be important to look at feasibility in the context of Canada's banking and financial system, and also consider the potential for partnerships.

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