

## The Post Officer: Banker of the Future?

by Charles B. Wendel

By now I have given up hope that the end of year contribution I mailed to a charity will ever arrive. And I resent the check for a bill I mailed that same day; it too never arrived. Plus years ago I remember mailing one of my sons a precious stuffed animal that he wanted at his camp. Doggie, the creative name of the stuffed dog Beany Baby, may still be in transit a decade or so later. Those events and other similar post office experiences make me skeptical about that group taking on more tasks when they struggle with their core role. Customer service is often abysmal, many view staff as surly, but some believe now is to enter the business of banking.

An NBC news article reports that the senior campaign strategist for the ACLU, Rakim Brooks believes, postal banking “is among the new services the post office of the 21st century could — and should — provide. It would include basic banking services, including check cashing, providing low- or no-fee checking accounts, installing low-fee ATM machines, and providing wire transfer and bill payment services.”

Brooks goes on: “Postal banking is a win-win solution: It can help the post office’s bottom line and serve millions of Americans that are currently underbanked and unbanked,” Brooks said, referring to the more than 30 million Americans who do not have sufficient access to mainstream financial services or who have no bank accounts at all, often because of the fees associated with traditional commercial banking.” And guess what, the Postal Workers Union also thinks this is a great idea. They see it not as a “win-win,” but as a “win-win-win proposal.” So too do Senators Gillibrand and Sanders. Gillibrand claims it is an “elegant solution” to the USPS’ problems and quotes a made up number that projects \$9B in revenues, with no estimate of how that revenue translates to net profit or loss.

Importantly, the article notes that postal banking was tried once before and abandoned when banks provided customers with better interest rates. “Postal banking is not a new concept. Banking was part of the menu of services the post office offered for decades, beginning in 1910 when Congress established the Postal Savings System to encourage people to put their money in financial services. By 1947, the postal banking system had \$3.4 billion in deposits. But in the 1960s, interest in the program waned when commercial banks started offering higher interest rates, and in 1967 postal banking was phased out.” Competition killed postal banking just as competition might kill the USPS.

BTW, while some are promoting expansion into a new business line, last month the *New York Post* reported that the Postmaster General announced that the USPS “would slow current first-class delivery standards and raise some prices...USPS said 61% of current first-class mail volume would stay at its current standard.” When I was in school 61% got us an “F.”

Let me summarize:

1. Delivery service will decline...that’s a promise.

2. USPS will raise prices, another promise.
3. The solution...Let's enter an entirely new business line during a time when banks and Fintechs are more focused than ever on providing solutions to the "unbanked."

In our view banks need to consider two key takeaways from this potential initiative:

1. The industry as a group needs to do all they can to address the "unbanked" problem in order to cut the postal bank concept off at its knees before it gains steam.

Of course it might be great for the industry, but not for the customer, if the USPS took over responsibility for the unbanked segment and allowed banks to focus elsewhere. The government would never allow that to happen. Instead the USPS with its taxpayer subsidies would compete directly against banks, cutting into bank profitability.

It's easy to criticize the outdated USPS, an organization that the government should consider overhauling and maybe scrapping rather than expanding. But banks need to view the USPS proposal as a warning shot. Today's political environment differs substantially from the last Republican or Democrat administrations with its distinctly progressive emphasis gaining increased focus. With it comes more regulations and restrictions on how financial services operate.

The industry needs to push back on this fledging idea. Its best argument is showing how banks are serving these groups and putting more emphasis on them, eliminating the need for a USPS entry.

2. We have seen bank management pursue just what the USPS is considering. By this we mean entering new businesses or geographies rather than focusing on increasing share and profitability from units already up and running but with more unexploited potential. Others enter businesses without the expertise or commitment required and exit a few years later. To this day banks often pursue new customers rather than selling more deeply into the customers they have. And for some banks digitalization may be akin to what the post office is doing.

On its face the idea of the post office expanding in new directions seems absurd. NBC quotes one advocate of this approach as saying, "Allowing the post office to evolve and expand its services can help fix it." But shouldn't the USPS and banks show they can fix their current businesses before venturing elsewhere?