

Confronting Wall Street: Establishing a Democratic Public Postal Banking System in America

Letter Carriers Consider Bringing Back Banking Services

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On July 27, 2012, the National Association of Letter Carriers adopted a resolution at their National Convention in Minneapolis to investigate establishing a postal banking system. The resolution noted that expanding postal services and developing new sources of revenue are important to the effort to save the public Post Office and preserve living-wage jobs; that many countries have a successful history of postal banking, including Germany, France, Italy, Japan, and the United States itself; and that postal banks could serve the 9 million people who don't have bank accounts and the 21 million who use usurious check cashers, giving low-income people access to a safe banking system. "A USPS bank would offer a 'public option' for banking," concluded the resolution, "providing basic checking and savings - and no complex financial wheeling and dealing."

The USPS has been declared insolvent, but it is not because it is inefficient (it has been self-funded throughout its history). It is because in 2006, [Congress required it to prefund postal retiree health benefits](#) for 75 years into the future, an onerous burden no other public or private company is required to carry. The USPS has evidently been targeted by a plutocratic Congress bent on destroying the most powerful unions and privatizing all public services, including education. Britain's 150-year-old postal service is also [on the privatization chopping block](#), and its postal workers have also vowed to fight. Adding banking services is an internationally proven way to maintain post office solvency and profitability.

Serving an Underserved Market, Without Going Broke

Many countries operate [postal savings systems](#) through their post offices, providing people without access to banks a safe, convenient way to save. Great Britain first offered this arrangement in 1861. It was wildly popular, attracting over 600,000 accounts and £8.2 million in deposits in its first five years. By 1927, there were twelve million accounts—one in four Britons—with £283 million on deposit.

Other postal banks followed. They were popular because they serviced a huge untapped market—the unbanked and underbanked. [According to a Discussion Paper](#) of the United Nations Department of Economic and Social Affairs:

The essential characteristic distinguishing postal financial services from the private banking sector is the obligation and capacity of the postal system to serve the entire spectrum of the national population, unlike conventional private banks which allocate their institutional resources to service the sectors of the population they deem most profitable.

Serving the unbanked and underbanked may sound like a losing proposition, but numerous precedents show that postal savings banks serving low-income and rural populations can be quite profitable. (See below.) In many countries, according to the UN Paper, banking revenues are actually crucial to maintaining the profitability of their postal network. Letter delivery generates losses and often requires cross-subsidies from other activities to maintain its network. One effective solution has been to create or expand postal financial services.

Public postal banks are profitable because their market is large and their costs are low: the infrastructure is already built and available, advertising costs are minimal, and government-owned banks do not award their management extravagant bonuses or commissions that drain profits away. Profits return to the government and the people.

Profits return to the government in another way: money that comes out from under mattresses and gets deposited in savings accounts can be used to purchase government bonds. Japan Post Bank, for example, holds 20% of Japan's national debt. The government has its own captive public lender, servicing the debt at low interest without risking the vagaries of the international bond market. Fully [95% of Japan's national debt is held domestically](#) in one way or another. That helps explain how Japan can have the worst debt-to-GDP ratio of any major country and still maintain its standing as [the world's largest creditor](#).

Some Examples of Successful Public Postal Banks

Kiwibank:

New Zealand's [profitable postal bank had a return on equity](#) of 11.7% in the second half of 2011, with net profits almost trebling. It is the [only New Zealand bank able to compete](#) with the big four Australian banks that dominate the New Zealand financial sector.

In fact, it was set up for that purpose. By 2001, Australian mega-banks controlled some 80% of New Zealand's retail banking. Profits went abroad and were maximized by closing less profitable branches, especially in rural areas. [The New Zealand government decided to launch a state-owned bank](#) that would compete with the Aussie banks. To keep costs low while still providing services throughout New Zealand, the planning team opened bank branches in post offices.

In an early version of the "move your money" campaign, 500,000 customers transferred their deposits to public postal banks in Kiwibank's first five years—this in a country of only 4 million people. Kiwibank consistently earns the nation's highest customer satisfaction ratings, forcing the Australia-owned banks to improve their service to compete.

China's Postal Savings Bureau:

With the assistance of the People's Bank of China, China's Postal Savings Bureau was re-established in 1986 after a 34-year lapse. As in New Zealand, savings deposits flooded in, growing at over 50% annually in the first half of the 1990s and over 24% in the second half. By 1998, postal savings accounted for 47% of China Post's operating revenues; and 80% of China's post offices provided postal savings services. The Postal Savings Bureau has served as a vital link in mobilizing income and profits from the private sector, providing credit for local development. In 2007, the [Postal Savings Bank of China](#) was set up from the Postal

Savings Bureau as a state-owned limited company that provides postal banking services.

Japan Post Bank:

By 2007, Japan Post was [the largest holder of personal savings in the world](#), boasting combined assets for its savings bank and insurance arms of more than ¥380 trillion (\$3.2 trillion). It was also the largest employer in Japan. As in China, Japan Post recaptures and mobilizes income from the private sector, funding the government at low interest rates and protecting the nation's debt from speculative raids.

Switzerland's Swiss Post:

Postal financial services are by far [the most profitable activity of Swiss Post](#), which suffers heavy losses from its parcel delivery and only marginal profits from letter delivery operations.

India's Post Office Savings Bank (POSB):

POSB is [India's largest banking institution and its oldest](#), having been established in the latter half of the 19th century following the success of the postal savings system in England. Operated by the government of India, it provides small savings banking and financial services. The Department of Posts is now seeking to expand these services by creating a [full-fledged bank](#) that would offer full lending and investing services.

Russia's PochtaBank:

Russia, too, is seeking to expand its post office services. The head of the highly successful state-owned Sberbank has stepped down to take on the task of revitalizing the Russian post office and [create a post office bank](#). PochtaBank will operate in the Russian Post's 40,000 local post offices. The post office will function as a banking institution and compete on equal footing not only with private banks but with Sberbank itself.

Brazil's ECT:

Brazil instituted a postal banking system in 2002 on a public/private model, with the national postal service ([ECT](#)) forming a partnership with the nation's largest private bank (Bradesco) to provide financial services at post offices. The current partnership is with Bank of Brazil. ECT (also known as Correios) is one of the largest state-owned companies in Latin America, with an international service network reaching more than 220 countries worldwide.

The U.S. Postal Savings System:

The now-defunct [U.S. Postal Savings System](#) was also quite successful in its day. It was set up in 1911 to get money out of hiding, attract the savings of immigrants, provide safe depositories for people who had lost confidence in private banks, and furnish depositories with longer hours that were convenient for working people. The minimum deposit was \$1 and the maximum was \$2,500. The postal system paid two percent interest on deposits annually. It issued U.S. Postal Savings Bonds that paid annual interest, as well as Postal Savings Certificates and domestic money orders. Postal savings peaked in 1947 at almost \$3.4 billion.

The U.S. Postal Savings System was [shut down in 1967](#), not because it was inefficient but

because it became unnecessary after its profitability became apparent. Private banks then captured the market, raising their interest rates and offering the same governmental guarantees that the postal savings system had.

Time to Revive the U.S. Postal Savings System?

Today, the market of the underbanked has grown again, including about one in four U.S. households according to a [2009 FDIC survey](#). Without access to conventional financial services, [people turn](#) to an alternative banking market of bill pay, prepaid debit cards and check cashing services, and payday loans. They pay excessive fees for basic financial services and are susceptible to high-cost predatory lenders. On average, a payday borrower pays back \$800 for a \$300 loan, with \$500 going just toward interest. Low-income adults in the U.S spend over 5 billion dollars paying off fees and debt associated with predatory loans annually.

Another underserved market is the rural population. In May 2012, a move to [shutter 3,700 low-revenue post offices](#) was halted only by months of dissent from rural states and their lawmakers. Banking services are also more limited for farmers following the 2008 financial crisis. With [shrinking resources for obtaining credit](#), farmers are finding it increasingly difficult to stay in their homes.

It is clear that there is a market for postal banking. Countries such as Russia and India are exploring full-fledged lending services through their post offices; but if lending to the underbanked seems too risky, a U.S. postal bank could follow the lead of Japan Post and use the credit generated from its deposits to buy safe and liquid government bonds. That could still make the bank a win-win-win, providing income for the post office, safe and inexpensive depository and checking services for the underbanked, and a reliable source of public funding for the government.

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