Canadian Centre for Policy Alternatives
October 2013

Why Canada Needs Postal Banking

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ISBN 978-1-77125-086-3

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ACKNOWLEDGEMENTS

The author would like to thank the Canadian Union of Postal Workers (CUPW) for their generous support of this research. The views are the author's own and do not necessarily reflect those of CUPW. He would like to especially thank Katherine Steinhoff and Geoff Bickerton of CUPW for their help and for their own groundbreaking research on this topic. He would also like to thank all those who agreed to be interviewed for this project and all those who helped review the manuscript. Thanks are due to the dedicated staff at CCPA especially Bruce Campbell, David Macdonald, Kerri-Anne Finn, and Tim Scarth for his work on layout. Also a very special thanks to the translation team at CUPW, including Guy Laflamme, Manon Parrot, Anne Boulet, Charles Drouin and Maryse Prévost for all their excellent work and suggestions.

Summary

Why Canada Needs Postal Banking

OVER THE LAST two decades, we have seen a major decline in the number of branches and locations for banks and credit unions. In 1990, there were almost 8,000 branches (7,964) and, by 2002, the number had fallen to 5,908, a decline of 26%.

The Canadian Bankers' Association reports that, between 2006 and 2012, there was a small increase in the number of bank branches in Canada: from 5,902 to 6,205. But since 1990, there has been a decline of more than 1,700 branches, a 22% drop, and the number of branches increased by only 5.1% from 2002 to 2012, with most of the new branches added in Ontario (195), Alberta (98), and British Columbia (37).

In many communities today, credit unions or caisses populaires are the only financial institution. In 2012, the Credit Union Central of Canada reported that credit unions were the only financial institution in 380 communities. The Desjardins Group noted in 2013 that caisses populaires are the only financial institution in 388 towns and villages in Quebec. But the total number of credit union and caisse locations has also dropped from 3,603 in 2002 to 3,117 in 2012, a decline of 13.5%.

The Rise of Banking Fees and High Credit Card Rates

In 2010, a study by Vision Critical (commissioned by ING Direct bank before it was taken over by the Bank of Nova Scotia) found that banking fees in Canada were among the highest in the world. More than half of Canadians (55%) have fee-based chequing accounts and, on average, pay $185 per year in fees for these accounts. Credit card rates remain high in spite of low Bank of Canada prime rates. Typical bank card interest rate hover around 20% annually and department store cards are closer to 30%.

ATM, Internet, Telephone Banking

The decline of branch banking is not only linked to banks rationalizing their bricks-and-mortar locations. It is also linked to the rise of ATMs, Internet and telephone banking. Today there are more than 58,000 ATMs across Canada, 61% of them so-called white machines owned by non-bank companies. Online banking has grown at a tremendous rate in recent years, with 67% of Canadians now using this form of banking, according to a CBA study. The study also noted that 47% of Canadians "now use the Internet as their main means of banking, up from 8 % 12 years ago."

Retail Store Banking

Canadian Tire, WalMart, and PC Financial (to name only the largest) are all major challengers to the traditional banks. Clients of these institutions are not using traditional bank branches. There has also been a rise of branchless banking. ING Direct Canada, a branchless bank, which was originally a subsidiary of a major Dutch bank, now has some 1.8 million clients and almost $40 billion in assets. It was absorbed by the Bank of Nova Scotia in 2012, but still maintains autonomous activity.

Fringe Financial Institutions

Another major change in the banking environment that shows there is an opening for new financial services is the rise of Fringe Financial Institutions. These FFIs provide short-term loans and cheque cashing services, as well as money transfers and prepaid credit cards.

While offering services customers want, the interest rate charges for their services on an annual basis can only be considered usurious. A study of FFIs in Prince George, B.C., for example, concluded: "Given that the average pay-day loan in Canada is $280 for a 10-day period, a pay-day lender in B.C. can now legally charge $64.40 for this transaction. This computes to a nominal annual percentage rate of interest (APR) of 839.5%."

These are extremely profitable operations. DFC, the owner of Money Mart, the largest Canadian pay-day loan firm, made global profits before tax of $387 million on revenues of $1.062 billion in 2012, and 28.7% of their total global revenues for the fiscal third quarter 2013 came from Canada.

A new group of Internet branchless companies, such as Zippy Cash and Wonga, have also started up in Canada in the last few years. In Canada, on the Wonga website, the cost for a $200 loan for 30 days is $40.10, or a rate of over 240% per year.

The rise of this kind of institution is linked in a chicken-and-egg fashion to the increase in the number of "unbanked" or "underbanked." It is estimated that between 3% and 15% of the population do not have a bank account. If we take the lowest figure of 3% that was estimated to be 842,000 people in 2005. Today, the number of unbanked, using the same method of calculation, would approach 910,000.

Aboriginal communities remain largely without banks or credit unions. Over the past decade, the Aboriginal population has increased dramatically, growing by 20.1% between 2006 and 2011. Some 1.4 million people now identify as Aboriginal, or 4.3% of the Canadian population. But banks and credit unions lag behind in providing services. While the major banks all have Aboriginal services, there are very few branches on reserves. There are 615 First Nations communities in Canada today and many other Métis and non-status communities. A quick tally of branches of banks and credit unions on reserve shows only 54.

All these trends in financial services have opened up the potential for the entry of new banking and financial services in Canada. They show there is a market demand that is not being met by the existing major banks and credit unions.

Postal Banking: The Canadian Debate

Postal banking is not something new to Canada. For over 100 years after Confederation, Canada had a postal savings system.

The high point of deposits for the Post Office Savings Bank was $47.5 million total in 1908. This would be around $1 billion in today's money. The total shrank to $17.2 million in 1968. In 1968, the Postal Savings Bank was closed down, although the legislation still remains on the books.

Today, over 45 years later, the debate around the need to revive or relaunch a Post Office Bank has begun to grow again.

In 2005, a study from Library of Parliament research services supported the extension of financial services as an important means of preserving the post office across Canada, and particularly in rural areas. "At present, the idea of establishing a postal bank underpinned by Canada Post's network is not based primarily on a need to change the banking landscape. Rather, it stems from the growing need to breathe new life into Canada Post so that it can both cope with globalization and guarantee universal postal service, which is a real, if not official, part of its social mandate, particularly in rural areas."

A recent study by the Conference Board of Canada, commissioned Canada Post, provided a positive analysis of the effects of financial services in post offices around the world, but failed to recommend financial services or even to examine their possible application in Canada, on the grounds that a highly developed banking system in Canada left no room for a postal banking option.

Public support has been confirmed in a recent survey by Strategic Communications of 1,514 Canadians from May 24–26, 2013, commissioned by the Canadian Union of Postal Workers. The survey showed that nearly two-thirds (63%) of Canadians "supported Canada Post expanding revenue-generating services, including financial services like bill payments, insurance and banking." Politically the New Democratic Party has supported the expansion of financial services in Canada Post.

Postal Banking Around the World

Postal banking has deep roots internationally and is entering a period of expansion of services. This has been shown in a major global study of postal banking recently carried out in 2012 by researchers of the Universal Postal Union, of which Canada is a member.

The UPU report shows that, "After banks, postal operators and their postal financial subsidiaries are the second biggest world-wide contributor to financial inclusion, far ahead of microfinance institutions, money-transfer organizations, co-operatives, insurance companies, mobile money operators, and all other providers of financial services."

There are many large and important postal banking operations around the world, from Japan Post Bank, the world's largest deposit holder with ¥203 trillion (C$2.15 trillion) in assets, to the Postal Savings Bank of China, the fifth-largest commercial bank in China with over 400 million customers, to the Deutsche Post Bank, which is now owned by Deutsche Bank but remains one of the largest in Germany with its own network of over 100 branches and 4,500 postal outlets.

Our study does not examine these banks, but rather looks at five successful models in industrialized countries — the United Kingdom, France, Italy, Switzerland, and New Zealand — which have all maintained an important relationship between the financial services offered through post office outlets and the post office. These countries have been chosen because of their relevance to Canadian options. In all five countries, the Post Office is publicly owned, although the UK is in the process of privatizing its delivery services, the Royal Mail, while keeping the Post Office public.

The United Kingdom's Post Office's financial services, in their present form, offer a model which is based on a major partnership with a private sector financial institution, some new products, as well as access for customers of most existing banking services.

France's Banque Postale is a chartered bank owned by the Post Office that offers a wide range of products, including insurance, and is particularly concerned with offering products to the NGO and mutual sector, as well as to low-income citizens. The bank makes the list of the world's top 50 safest banks.

Italy's BancoPosta presents the model of a non-chartered bank that offers a wide range of services and excels in offering them through mobile phones as well as banking cards.

Switzerland's PostFinance, wholly owned by the Swiss Post Office, is the leader in money transfers and one of the largest banks in a country famous for its private sector banking. It has just this year become a chartered bank. It also offers

FIGURE 1 Summary of Postal Banking Models and Services in the United Kingdom, France, Italy, Switzerland and New Zealand

Postal Financial Services	Name of Financial Services Institution(s)	Structure of ownership of Financial Services	Services Offered	Bank Charter	% of Post Office sales or profits for latest year	Rank of Services
United Kingdom	Post Office	Main partnership with Bank of Ireland and agreements with other banks	All financial services, including new chequing accounts	No	25% of sales	No ranking
France	La Banque Postale	La Poste	All services	Yes	36% of before-tax earnings	44th Safest Bank in World
Italy	BancoPosta and insurance companies	Poste Italiane	All services; savings in partnership with the CDP (Cassa Depositi e Prestiti)	No	67% of total profits	Largest retail bank in Italy
Switzerland	PostFinance	Swiss Post, with partnership on all loan and insurance products	All services	Yes	71% of total Swiss Post operating profits	Number 1 in payment services and number 3 in customers
New Zealand	Kiwibank	NZ Post	All services	Yes	70% of profits	Largest NZ-owned bank

mortgages and loans in partnership with major private sector financial institutions.

Finally, Kiwibank, owned by New Zealand Post, is a relatively new entrant in the world postal banking sector and has been able to offer a wide range of services, including special mortgage products to low-income earners and to the Maori community.

Postal Banking for Canada

When we examined these five national postal banking systems in detail, we found that they were all successful in their own way. However, success did not seem to be linked to the particular form of structuring of the financial services (which ranged from full ownership by the Post Office to various kinds of partnership with the private sector), or to the kind of products offered, as some offered all major financial products and some fewer. The diversity in successful models shows that the key component for success seems to be characteristics of the Post Office itself, including widespread locations, trust in the institution, and the staff.

Why Postal Banking?

Our study shows clearly that postal banking would succeed in Canada and would help improve and stabilize Canada Post's services and revenues. The five post offices we studied in other countries are all publicly owned, and receive a substantial percentage of their sales and profits from financial services while other sources of revenue declined.

The rise of virtual and new retail banking and the growth of Fringe Financial Institutions in Canada show that the traditional financial banking sector is not meeting all the needs of Canadians. Millions of Canadians have opened accounts in or are using the services of these new institutions; but, although they operate in a similar fashion to traditional banks, they tend to be concentrated in urban areas and are not available in many parts of the country.

A new Canada-wide financial institution could offer products and services that challenge the existing patterns. The ability to offer competition for existing fees would be helped by the fact that banking services would be delivered through existing premises and staff. Use of the e-post system, as well as existing Canada Post delivery services, could help keep costs low.

Clearly, offering postal financial services would allow the millions of Canadians without local bank branches or easy access to banking the access they need.

First, there are many Canadians living in large parts of Canada who lack physical access to banks or credit unions. The number of bank and credit union branches has shrunk over the last two decades. In rural Canada, many bank branches have closed in small towns and, while credit unions have purchased some of these branches, this process has slowed markedly in recent years.

Because postal outlets are present in both rural communities and inner city neighbourhoods, new postal banking could offer to citizens and businesses in many communities banking services where they do not currently exist. In Northern and rural Canada, on Aboriginal reserves, and in the three Northern territories, there have always been fewer banks and credit unions than are needed. (There are no credit unions in the territories.)

Second, it is estimated that some 3% to 8% of Canadians do not have a bank account. This represents a potential of more than a million new customers for postal financial services. Many Canadians use fringe financial services at a high personal cost. New postal banking services could also be combined with legislation requiring the immediate roll-back of FFI interest rates to bring them in line with existing banking rates.

The Kiwibank and Banque Postale are both excellent examples of how a postal bank can offer special services to low-income people, such as home mortgages, rent-to-buy, and even social housing loans. In the case of Kiwibank, a special mortgage program for Aboriginal peoples has been developed that could be replicated in Canada.

Canada Post's Banking Advantages

- Canada Post has the largest network of retail outlets already in place across Canada.

- Canada Post had a total of almost 6,400 postal outlets in 2012.

- 3,800 Canada Post outlets (60%) are in rural areas where there are fewer banks and credit unions. The post offices in these locations could provide key services for individuals, but also for local businesses.

- Some communities in Canada have a postal outlet, but no other (or limited) banking services, especially since the closure of 1,700 bank branches and hundreds of credit unions over the last two decades.

- Canada Post has a high trust factor among Canadians, and an already existing skilled and stable workforce of 68,000 employees, some of whom could easily be trained to handle financial services. Thus it would not mean starting from scratch, but rather building on what already exists.

- Many Canada Post outlets are already open 6 or 7 days a week and could operate longer daily hours if necessary. Many of them are located in drug stores or small convenience stores with long weekday and weekend opening hours.

- Since Canada Post is owned 100% by the federal government, it could use the expertise developed at the Bank of Canada, the Business Development Bank of Canada, Farm Credit Canada, Canada Mortgage and Housing Corporation, Export Development Canada, and Canada Savings Bonds.

The financial services Canada Post could provide would be tested regionally first; would be fair and transparent; be delivered from bricks-and-mortar branches as well as through the telephone and Internet; expand existing services; and contribute to financial literacy. All services, of course, would be profitable for Canada Post to provide.

Canada Post already provides some financial services, such as postal money orders, domestic and international money transfers, bill payment and financial transaction and payment notices, and prepaid Visa cards.

Brand new services could consist of:

- access by all banks and credit union customers to their accounts to deposit or withdraw cash, as is the case in the UK;

- savings accounts and low-fee chequing accounts;

- low-interest credit cards; and

- prepaid debit cards.

In the future, services could be extended to:

- mortgages;

- small-business loans and agricultural loans;

- insurance products;
- mutual funds and stocks; and
- special new products for low-income and Aboriginal peoples.

Canada Post financial services should offer new competitive products to all Canadians, but they could also make sure that there were special services offered to low-income and Aboriginal Canadians, similar to services offered by both the French and New Zealand post office financial systems.

The postal bank could also provide special services for NGOs and social economy organizations. The Banque Postale in France has become a banker for NGOs, social economy and mutual organizations in fields such as social housing. For a while it looked as though Citizen's Bank would take on this role in Canada, but its retreat from the sector means that once again there is no bank specializing in the needs of this kind of business.

Delivering Financial Services

Canada Post Corporation could examine the optimum method of delivering these services. This could be done by establishing a task force of experts from the financial and postal services to examine how they are delivered in other jurisdictions, the best method for Canada Post (in terms of profit and sales), and the best method for users of these services.

Who Should Own the Services?

There are several possibilities:

- Create a non-chartered bank — a Canada Post-owned subsidiary — to deliver financial services. This is the route taken in Italy
- Create a chartered bank wholly owned by Canada Post. This is the route taken by France, Switzerland, and New Zealand
- Create a bank to deliver some of the services and partner with banks and others to deliver the rest. This is the route taken by Switzerland.
- Create a national credit union or mutual to deliver the financial services in partnership with Canada Post. A national credit union is one such possibility, as it would allow for widespread ownership by Canada Post employees as well as the public.
- Partner directly with one or more financial institutions to deliver the services. This is the route taken in the U.K.

What Mix of Financial Services Should Be Offered? Who Should Deliver Them?

Canada Post already has partnerships with a number of different institutions that could be approached to assist with these services. Once the first question is answered, the second one could be examined and the experience of other countries taken into account.

All potential partnerships, if that is a route taken, should be determined by open tender on delivering a service for a specific period of time. With its 6,400 outlets, which often serve populations with no competition in financial services and sometimes no services at all, Canada Post would undoubtedly be courted by many financial institutions anxious to supply services. There is also no reason to necessarily have all services provided by the same stakeholder or stakeholders across the country.

Whatever the ownership mechanisms, some services could be completely owned by Canada Post and others delivered by a partnership with existing credit unions or banks. Partnerships could be made nationally or developed on a regional basis. This would also allow Canada Post to partner with regionally-based credit unions and caisse populaires in different provinces.

The question of delivery has become easier with the uptake in Internet and mobile phone technology. For example, the UK Post Office Ltd. delivers its services with a core of 300 financial specialists, as well as trained Post Office staff for 11,500 outlets. Internet and telephone technologies allow people in remote areas to connect with financial specialists.

Conclusion

- Canada's existing financial and banking system is not providing competitive services to Canadians, nor adequate service to many of the under- or unbanked.
- Canada's postal system has a long history of delivering financial services. Currently delivering some products, it could develop a full banking system.
- Postal banking systems are proliferating around the world and are prominent in most of the developed countries. They have shown themselves capable of generating the additional income needed to preserve the postal system as traditional letter volumes decline.
- Analysis of the postal banking systems in the five developed countries we have selected has demonstrated that there are many ways of creating a successful system. We can use the experience of these countries to create our own model in Canada.
- Our study concludes that the idea of Canada Post expanding into financial services is a sound one. Other studies, as well as opinions of past Canada Post presidents and experts around the world, have reached the same conclusion.
- We recommend that the federal government and Canada Post immediately establish a task force to determine how to deliver new financial services, and determine priorities for delivering new products.

Introduction

Why This Study?

This study tries to answer three questions:

1. Could offering postal financial services help stabilize Canada Post revenues and services? The post office is still a much-valued and needed service in Canada, but the environment is rapidly changing as we have moved beyond the paper-and-parcel era to a combined paper, parcel and electronic communications world. Thus, if we can help stabilize and strengthen this system through the introduction of new services such as financial services, we can help preserve it.

2. Could delivering financial services through the post office offer Canadians competitive new services and diversity of choice? Canada's big six banks are amongst the largest and most profitable in the world. The country's six largest banks' profit in 2011 was $23.4 billion[1] and in 2012 was $28.6 billion.[2] This sum is larger than the federal deficit for the fiscal year 2012–13 (which was $18.3 billion).[3] The profit rate of 17.1% return on equity in 2012, as analysed by PricewaterhouseCoopers, is one of the highest of any industry and shows there is room for competition.[4]

3. Could offering postal financial services allow the millions of Canadians without local bank branches or easy access to banking the access they need? While Canada has a highly developed banking system, many people and large regions are not served by banking institutions. Postal banking can offer access to financial services not now available to many Canadians as it does for citizens in many similar countries around the world.

To answer these questions, we will first examine the banking environment in Canada to see if there is potential for a new entrant. We will then look at the strengths that Canada Post could bring to the table as a financial services provider. We will next examine the history of postal banking in Canada. Then we will examine the postal banking environment around the world and particularly look at postal banking in five similar countries, the UK, New Zealand, France, Italy and Switzerland. Finally, we will look at what kinds of options exist to make postal banking work in Canada.

The Changing Banking Environment in Canada

Canada's banking environment is changing. For over 100 years, Canada's banking world was composed mainly of the Big Six banks with banking hours that started at 10 a.m. and ended at 3:00 p.m. and with branches that were not open on weekends. Credit unions and caisses populaires provided the only real alternatives, but the majority of Canadians (except in Quebec and Saskatchewan) chose the banks that continued to make very sizable profits each year.

In the last 20 years, however, the banking industry has begun to change dramatically and opened possibilities for the entry of new postal banking services.

The Decline of Bank Branch and Credit Union Locations in Both Urban and Rural Canada

Over the last two decades, we have seen a major decline in the number of branches and locations for banks and credit unions. In a 2012 study, the Canadian Bankers Association (CBA) noted that only 17% of Canadians surveyed identify branch banking as their main banking method, down significantly from 29% in 2000.[5] CBA also showed that residents of Manitoba and Saskatchewan are the highest users of in-branch banking with 22% using it for their main banking needs while only 10% of Quebec residents rely mainly on branches. As well, "33 per cent of Canadians say their use of in-branch banking has dropped."

FIGURE 2 Bank Branch Statistics, 9 Bank Totals

As of October 31	2006	2007	2008	2009	2010	2011	2012
Newfoundland	103	105	106	105	104	107	108
Nova Scotia	198	200	199	197	197	197	191
Prince Edward Island	29	29	29	28	28	27	27
New Brunswick	162	164	164	162	161	160	154
Québec	1,092	1,099	1,103	1,094	1,089	1,097	1,095
Ontario	2,504	2,562	2,627	2,652	2,653	2,675	2,699
Manitoba	212	215	214	206	206	206	203
Saskatchewan	247	246	248	247	247	246	239
Alberta	573	605	629	636	649	657	671
British Columbia	759	773	790	775	783	783	796
Northwest Territories/Nunavut	16	16	16	17	17	13	16
Yukon	7	7	17	17	17	7	6
Canada	5,902	6,021	6,142	6,136	6,151	6,175	6,205

Note Banks include: BMO Financial Group, CIBC, Canadian Western Bank, HSBC Bank Canada, Laurentian Bank of Canada, National Bank of Canada, Royal Bank of Canada, Scotiabank, and TD Bank Financial Group

Source Table from Canadian Bankers Associatino 2013 (only bank branches, not credit union locations)

The reasons for the decline in branch banking are, of course, complex.

Part of the decline is linked to the drop in the number and presence of bank branches. In 1990, there were almost 8,000 branches (7,964) and, by 2002, a Bain study commissioned by Power Corporation noted that the number had fallen to 5,908, a decline of 26%.[6]

The study also noted:

> Branch closures appear to disproportionately affect the most vulnerable Canadians. It has been estimated that the Banks have exited 45% of the bank branches in rural Canada (Public Interest Advocacy Centre, *Financial Post*, September 2000). Banks in low-income areas have also been particularly impacted. In the lowest income area of Winnipeg, a total of nine bank branches have been closed since 1995 (*Winnipeg Free Press*, February 2003).[7]

By 2012, a decade later, the CBA (which includes most of the banks in Canada) showed that between 2006 and 2012 the number of bank branches increased in Canada from 5,902 to 6,205.

But a closer examination of these numbers shows that:

- the increase has still left a decline of over 1,700 branches or 22% since 1990;
- while the population of Canada increased by 11% from 2002 to 2012,[8] the number of branches only increased by 5.1% in this decade;

FIGURE 3 Closed Bank Branches 2002–12

	Number Closed	Number of Towns and Cities
Newfoundland	9	7
Nova Scotia	18	9
New Brunswick	14	11
Prince Edward Island	2	2
Quebec	212	96
Ontario	489	124
Manitoba	33	5
Saskatchewan	31	13
Alberta	92	27
British Columbia	104	37
Nunavut	1	1
Northwest Territories	2	2
Yukon		
Total	**1007**	**334**

Source Financial Consumer Agency of Canada, http://www.fcac-acfc.gc.ca/eng/resources/toolCalculator/banking/BranchClosures/index-eng.asp?bLang=True&userProv=1&city=all#closureList

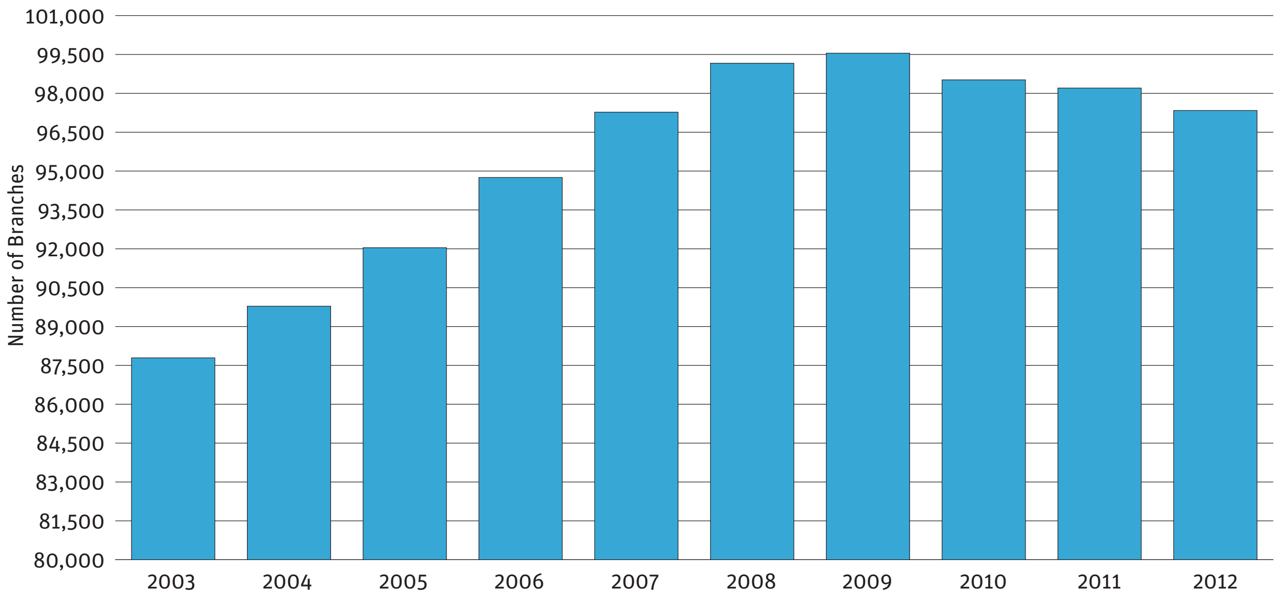
- the increase in bank branches since 2006 was only substantial in Ontario (with 195 branches added), Alberta (98) and BC (37). In the other provinces, Manitoba, Saskatchewan, the three Maritime provinces and the Yukon, the number of bank branches declined, while in Quebec and Newfoundland the growth was very small with only three branches added in Quebec.

The Financial Consumer Agency of Canada (FCAC) also measures the branch closings, though it does not indicate new branches or total locations. According to the FCAC, the number of bank branches closed from 2002 to 2012 was calculated at 1,007 in some 334 towns.

In many communities today, credit unions or caisses populaires are the only financial institution.[9] In 2012, the Credit Union Central of Canada reported that credit unions were the only financial institution in 380 communities.[10] The Desjardins Group noted in 2013 that caisses populaires are the only financial institution in 388 towns and villages in Quebec.[11] But the total number of credit union and caisse locations has also dropped from 3,603 in 2002 to 3,117 in 2012, a decline of 13.5%.[12] The number of Desjardins Group locations fell from 1,568 caisses and service centres in Quebec and Ontario in 2002, to 1,310 in 2011, a 16.5% decline.[13]

These declines are partly due to the fact that many individual credit unions

FIGURE 4 U.S. Branch Numbers



Source SNL Financial and FDIC Summary of Deposit filings.

Note Data as of Oct 4, 2012. Based on FDIC Summary of Deposits data as of June 30 of each year. Excludes credit unions.

or caisses have merged. But membership is also down due primarily to a decline in Desjardins membership, while CUCC membership grew. The Credit Union Central of Canada reported this year, "According to the 2011 census data, Canada's population grew by 5.9% over the 2006 to 2011 period. During the same period, the combined credit union/caisse populaire system (including the Desjardins system) recorded a 0.8% decline in membership. Membership in credit unions and caisses populaires affiliated with Canadian Central increased by 2.8 per cent."[14] In other words, the total credit union membership is shrinking while Canada's population is growing. The decline in the number of locations of credit unions was even more dramatic from the late 1980s to mid-1990s. Credit unions have since taken over some closed-down bank branches. In 2000 and 2001, credit unions bought 72 bank branches mainly in rural areas. But this acquisition boom has slowed and is now a trickle.[15]

The decline in bank branches in Canada has been even steeper than the decline in the United States. In 2012, there were 97,337 bank branches in the U.S., a decline for the first time from the 99,163 branches recorded in 2008. (In 1994, the total was only 81,297.) The average per capita number of people per bank branch is still much higher here than in the U.S.: 5,621 people per branch in Canada in 2012 compared to only 3,225 people per branch in the U.S.[16]

It is clear that many Canadians do not have immediate access to a bank branch and that our bank branches serve on average many more people per branch than they once did, and than American branches do today. We also know that many communities have no bank branch and that some do not have a credit union.

Having a bricks-and-mortar branch is important for a number of reasons:

- Many Canadians are still dependent on branch banking as their main form of banking. Even the CBA notes that almost one-fifth of Canadians view branch banking as their main method of banking. We also know that seniors are a subgroup within this category that is particularly attached to branch banking.[17] But these figures do not indicate how many Canadians rely on access to a bank branch to carry out important financial business.

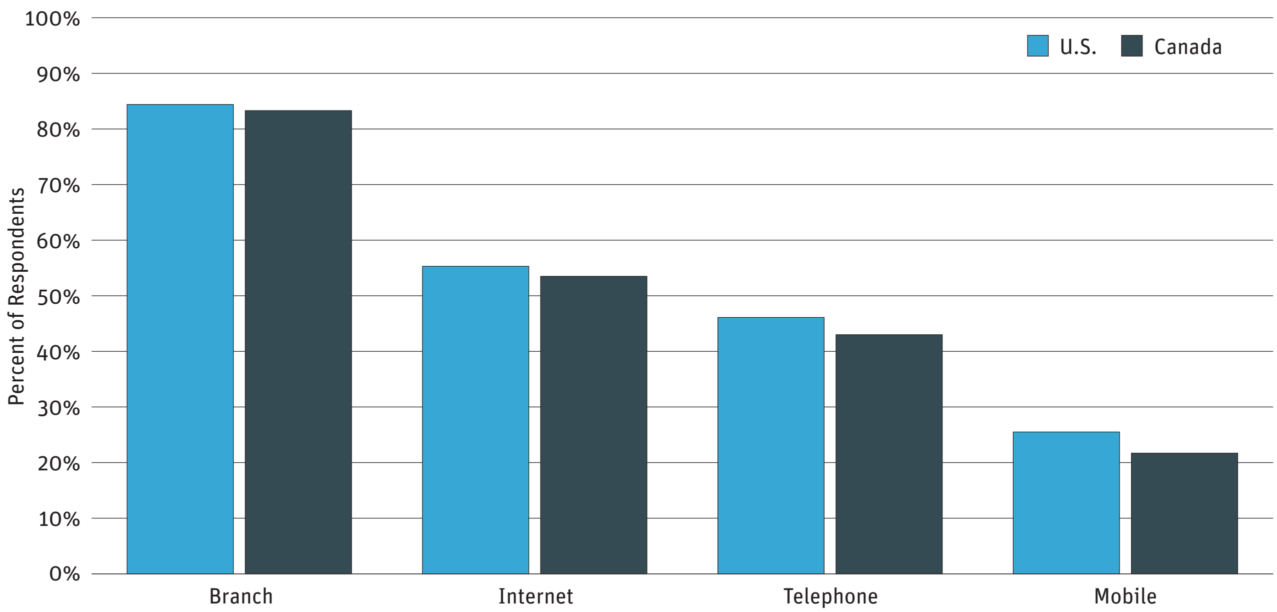
- Bank branches are particularly used for such activities as to open new accounts, for advice, to trade securities and apply for mortgages and loans in a much more intensive manner than overall use (see charts below). These transactions are usually the most lucrative for banks and credit unions; thus, by making it more difficult to get to a branch, these transactions may not be carried out or be made outside of the traditional bank network.

- Having fewer branches in rural and urban areas particularly affects business banking, whether it is retail, service, manufacturing or agriculture. As loans, mortgages, and other major products are very often negotiated in branches and advice sought there, the lack of nearby branches, or the long distances to travel to reach one, can affect the possibility of starting or expanding businesses. For many existing businesses, (particularly retail and some services) there is also a need to be able to go into a branch on a daily basis to deposit and withdraw cash and cheques. Businesses in rural and poor neighbourhoods in Canada are thus often disadvantaged with more branch closings compared to those in urban and richer neighbourhoods.

A survey showed that for major transactions, such as loan applications, "76% of consumers in the U.S. and 85% in Canada prefer to visit a branch." The same study showed that when asked what was the most trusted means of banking in both Canada and the U.S. over 80% as shown in the chart on p.21 said branches were the most trusted channel for financial transactions.

A recent U.S. study shows the still important reliance on branches for purchasing financial products, even in changing times. (Please see chart on p. 21.)

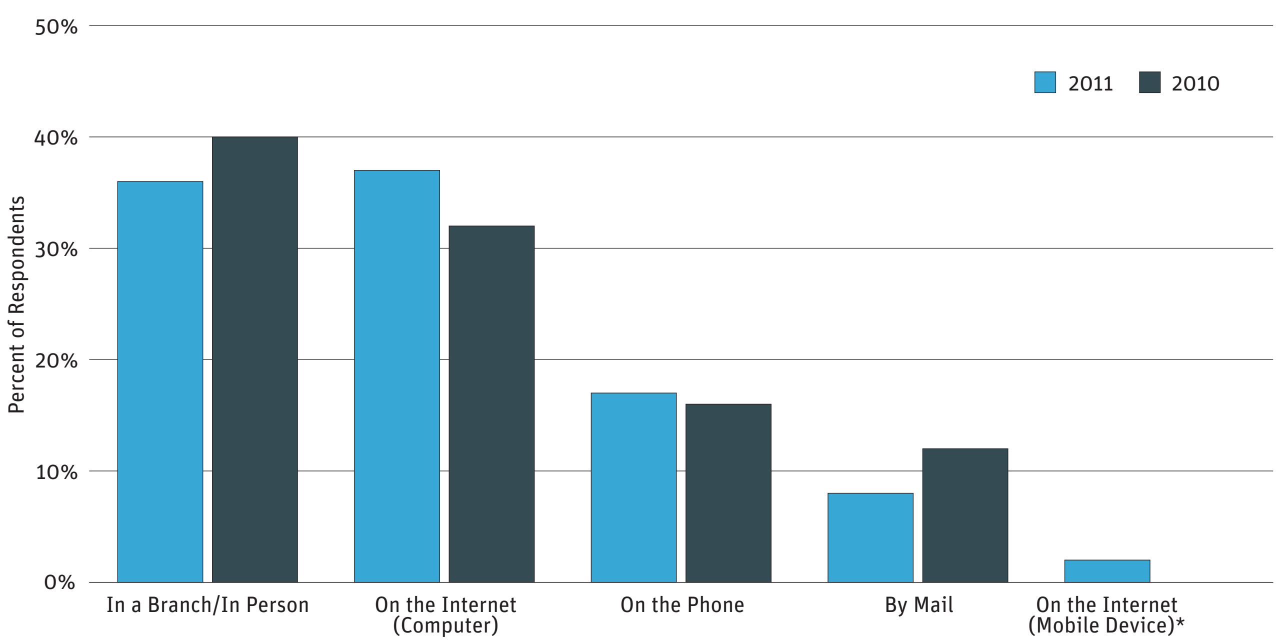
FIGURE 5 Most Trusted Channels for Bank Transactions According to Consumers in the U.S. and Canada, Q2 2010



Note Respondents who selected 4 or 5 on a 5-point scale, where 1=do not trust and 5=highly trust

Source Empathica, "Consumer Insights Panel, Q2 2010, Issue 3," Sep 30, 2010

FIGURE 6 Channels U.S. Consumers Use to Apply for Retail Financial Products



Note Base: 10,647 U.S. online adults (18+) who purchased a financial product. * Base: 20,036 U.S. online adults (18+) who purchased a financial product.

Source Forrester, "The State of North American Digital Banking: Priorities, Goals and Metrics," July 2012

The Opening of Bank Branches on Weekends and Evenings

Another major change which is still ongoing is the change in banking hours from the old 10–3 p.m. Monday to Friday experience.[19] First, there was the opening in the late afternoon, evenings and early morning, and these days, it is the move to openings not only on Saturday but on Sundays as well. The TD Canada Trust bank for example now has 300 branches open on Sundays.[20]

The Rise of Banking Fees and High Credit Card Fees

As a spokeswoman for the Canadian Bankers Association said, "About 30 years ago, we had no fees.... The cost of banking was covered off in the spread between loan rates and deposit rates. Borrowers paid for the banking activities of other clients."[21] But by 2010, a study by Vision Critical (commissioned by ING Direct bank before it was taken over by the Bank of Nova Scotia) found that fees in Canada were among the highest in the world. More than half of Canadians (55%) have a fee-based chequing account and, on average, pay $185 per year in fees for these accounts.[22] Statistics Canada reports households spend an average of about $16.20 per month on bank service fees. [23]

Credit card rates remain high in spite of low Bank of Canada prime rates: "The typical bank card interest rate continues to hover around 20% annually and department store cards are closer to 30%."[24]

New postal banking services could ensure that fees and charges could be more transparent than is the case now with the traditional banks, as shown in a recent *Marketplace* investigation on CBC Television.[25]

The episode revealed how the big five banks are charging unnecessarily high fees on banking services.

A well-known Bay Street insider, Preet Bannerjee, revealed how banks are making huge amounts on banking fees amounting to some 6% to 7% of bank earnings ($1.6 billion to $2 billion last year alone). The episode then showed how the banks' mutual fund fees were very high and, finally, how collateral mortgages now make it costly and difficult to transfer your mortgage.

ATM fees for using an ATM at a bank other than one's own are particularly insidious as in other countries such as the UK users are not charged.[26]

The Rise of ATMs, Internet, Telephone and Mobile Phone Banking

The decline of branch banking is not only linked to banks rationalizing their bricks-and-mortar locations. It is also linked to the rise of ATMs, Internet and telephone banking.

Today there are more than 58,000 ATMs across Canada. 61% of these ATMs are so called "white machines" owned by non-bank companies. The average ATM surcharge in 2008 was $1.50 usually paid for using a machine not linked to one's bank or credit union.[27]

Online banking has grown at a tremendous rate in recent years. The CBA reported in 2012 that, "A majority of Canadians (67 per cent) report using online banking in the last year." The study also noted that 47% of Canadians "now use Internet as their main means of banking, up from 8% 12 years ago." The demographics show 53% of 18-to-34-year-olds use the Internet as their main means of banking, as do 45% of those 55 and older.

But the study also pointed out that 33% of Canadians do not use Internet banking and it does not define what "main means" actually means to the 47% who claim it as their preferred banking method. Does it mean they never go into a branch, or only less frequently, or for certain services? For example, for bill payments, the study figures indicate:

- 46% of Canadians use online banking as their primary method of bill payment
- 18% prefer pre-authorized bank account payments
- 9% pay in a branch
- 8% use telephone banking
- 7% pay at an ATM

The study does not include how many people pay their bills by mail or at the company or utility offices. So while Internet banking is important, many people also use branches for all or some of their banking and bill payments. In 2003, Power Financial Corporation commissioned a study that discovered that 83% of Canadians conduct at least one transaction monthly at a branch.[28]

But it is not only the telephone and Internet banking methods that are new. In Canada we are also at the start of the mobile phone revolution (although it is much further advanced in other countries such as Italy or Kenya).

A recent study by the Federal Reserve said that mobile phone banking is on the rise in the United States. The survey said that that "28 percent of all cellphone users have used their mobile device to bank in the past 12 months — up from 21 percent in December 2011."[29]

According to the survey, mobile phone banking is "particularly popular among the 'underbanked' or those who have bank accounts but use cheque cashers and payday lenders. Nearly half, 49 percent, of these consumers said they had used mobile banking in the past 12 months." At the far extreme, in Kenya, where there is no developed telephone or banking infrastructure, 17 million or two-thirds of adult Kenyans use M-Pesa, the mobile banking system.[30]

One of the consequences of this trend is that entry into financial services is cheaper than it has been in the past as many of the services can be offered over the Internet.

The Rise of Retail Stores Offering Banking Services and Banks Without Branch Locations

While use of traditional bank branches may be declining, another factor contributing to this decline, or probably also a result of it, is undoubtedly the growth of non-traditional banks in Canada. PC Financial, Canadian Tire and Walmart (to name only the largest) are all major challengers to the traditional banks. Clients of these banks are not using traditional bank branches. PC Financial services and the PC Bank are owned by Loblaws and offer banking services from CIBC and a MasterCard from Loblaws. PC Financial has some 2.9 million accounts of which about 50% have a positive balance and $2.2 billion in account balances.[31] Canadian Tire Financial Services has 1.7 million accounts with balances. Over 40% of Canadian Tire's income before taxes for 2012 ($276.9 million out of $677.2 million) comes from financial services.[32] Walmart Canada also launched a bank in 2010, which is a subsidiary of its U.S. bank. So far, its only product is a MasterCard.[33]

There has also been a rise of branchless banking. ING Direct Canada, a branchless bank, which was originally a subsidiary of a major Dutch bank, has some 1.8 million clients and $40 billion in assets. It was absorbed by the Bank of Nova Scotia in 2012 although, for the moment, it maintains autonomous activity.[34]

The growth of retail and branchless banking in recent years shows that there is still a large and growing market for alternatives to the Big Six banking institutions.

The Rise of Fringe Financial Institutions, the Unbanked and the Underbanked

Another major change in the banking environment, that shows there is an opening for new financial services, is the rise of Fringe Financial Institutions or FFIs. These institutions provide short-term loans and cheque cashing services as well as money transfers and prepaid credit cards.

While offering services customers want, the interest rate charges for their services on an annual basis can only be regarded as usurious. A study of FFIs in Prince George, BC, concluded, "Given that the average payday loan in Canada is $280 for a 10-day period, a payday lender in B.C. can now legally charge $64.40 for this transaction. This computes to a nominal annual percentage rate of interest (APR) of 839.5 %. As a point of reference, the Bank of Canada's bank rate is currently 1%, and a typical credit card carries a 19.5% APR."[35]

The Canadian Payday Loan Association (CPLA) is the main organization that represents 764 retail fringe financial services outlets providing payday loans and/or cheque cashing services to customers in Canada. The organization has some 20 members with branches in every province. Money Mart/Insta-cheque is the largest company with 458 locations of the 764.[36] The CPLA member companies claim to serve nearly two million Canadians a year.[37]

These are, in general, extremely profitable operations. DFC, the owner of Money Mart, made global profits before tax of $387 million on revenues of $1.062 billion in 2012 and 28.7% of their total global revenues for the fiscal third quarter 2013 came from Canada.[38]

But these are not the only Fringe Financial Institutions. A new group of Internet branchless companies such as Zippy Cash and Wonga, a UK company, have also started up in Canada in the last few years, but are not members of CPLA. In Canada, on the Wonga website, the costs for a $200 loan for 30 days are $40.10 or a rate of over 240% per year.[39] The rates of Wonga in the UK, at 5,853% APR by British measures, are even higher! As the *Daily Telegraph* noted recently about British Wonga rates: "Among the criticisms of the industry is the high interest rates applied, as well as campaigns that critics say target the vulnerable. Wonga, the largest short-term lender, raised its standard interest rate quoted on its website by more than 1,600 percentage points to 5,853pc,[40] despite calls for a cap on the cost of short-term credit. The new APR is based on a £150 loan taken out over 18 days, which would add up to £183.49 after adding fees and interest, with the quoted interest rate assuming that the loan is extended over a year."[41] Recently Wonga made the news when the Archbishop of Canterbury, Justin Welby, was embarrassed to find, after he had denounced Wonga's usurious rates, that the Church of England had major investments in Wonga![42]

The rise of this kind of institution is linked in a chicken-and-egg fashion to the rise of the "unbanked" or "underbanked." It is estimated that between 3% and 15% of the adult population do not have a bank account. If we take the lowest figure of 3% this was estimated to be 842,000 adults in 2005.[43] As a recent study for the Financial Literacy Task Force noted:

> National level studies of financial exclusion in Canada are limited. It is estimated that 3 per cent of the adult population have no bank account, but that this proportion rises to 8 per cent among low-income adults (McKay 1998). In addition to being more likely to not have an account, low-income people are also 36 per cent more likely to not have a credit card (Buckland and Dong 2006) and more likely to have been refused a credit card (Simpson and Buckland 2009).[44]

Today, the number of unbanked, using the same method of calculation, would approach 910,000. In the United States, a report from the Federal Deposit Insurance Corporation showed a similar trend, in that 821,000 households opted out of the banking system from 2009 to 2011 and that the so-called unbanked population grew to 8.2% of U.S. households.[45] The study also showed:

- Roughly 17 million adults are without a chequing or savings account.
- 51 million adults have a bank account, but use pawnshops, payday lenders or rent-to-own services.

But the unbanked is not the only trend. Even larger in terms of numbers is the "underbanked."

The same U.S. federal government agency study also emphasizes the growth of this underbanked group. One of the criteria that the U.S. uses to determine an underbanked family is when a household has only one account. According to U.S. numbers:

- The underbanked population shot up from 18.2% to 20.1% of households from 2009 to 2011.
- 28.3% of households either had one or no bank account.
- Minorities, the unemployed, young people and lower-income households are least likely to have accounts.

The study of FFIs in Prince George, BC made similar findings. It found that 60% of payday loan users self-identified as being Aboriginal. "Aboriginal users of FFIs had lower incomes, less education, were more likely to be younger, more likely to be unemployed, and more likely to rely on income assistance than the non-Aboriginal users."

Only 12% of the FFI users were found to be unbanked in the sense of never having had a bank account. About 50% still regularly used the accounts, while 50% did not use a bank or credit union account on a regular basis.[46]

Aboriginal Communities Remain Largely Without Banks or Credit Unions

Over the past decade, the Aboriginal population has increased dramatically, growing by 20.1% between 2006 and 2011, while the non-aboriginal population increased by 5.2%, according to the 2011 National Household Survey. Some 1.4 million people now identify as Aboriginal, or 4.3% of the Canadian population.[47] But banks and credit unions lag behind in providing services. While the major banks all have Aboriginal services, there are very few branches on reserves.

There are 615 First Nations communities in Canada today and many other Métis and non-status communities. The Royal Bank, the country's largest bank, claims to have seven branches on reserves and four agency outlets as well as six branches "North of 60" (three branches in Nunavut).[48] The Bank of Montreal has 11 branches on reserves and three community banking outlets for Aboriginal banking.[49] The Bank of Nova Scotia has only four branches on reserves.[50] The TD Bank has a partnership with the First Nations Bank, which has eight branches and two community centres.[51] CIBC has seven reserve branches and one agency.[52] There are three credit unions with on-reserve branches (such as Affinity Credit Union, which opened the first credit union branch on a First Nations reserve in Saskatchewan in 2009) and five caisse populaires on Quebec reserves. A quick tally of these numbers (54) would indicate that of the 615 communities most are not directly served by a bank branch or credit union.

Trends in Banking Open Up Opportunities

The trends in financial services discussed above have opened up the potential for the entry of new banking and financial services in Canada. The decline of branches, the increase in branch hours, the higher and higher cost of banking, the continual rise of new technologies, the growth of new banks and financial services, and the rise of underserved communities and groups show there is a market demand that is not being met by the existing major banks and credit unions.

One of the major reasons behind these trends is the highly concentrated nature of the Canadian banking system. A recent academic study noted the big five banks in Canada have a share of 85% of total bank assets.[53] Another 2003 Bain & Company report noted that the "Six major Schedule 1 Banks control 87% of chartered banking assets, and 100% and 87% respectively of the trust and brokerage industry assets under administration. Concentration has grown substantially in each of these three pillars. The only pillar where the Big Six Banks do not have significant share is the insurance industry, where banks represent about 3% of insurance industry premium revenue."[54] The major banks are interested in rationalizing their operations and in merging, as the unsuccessful 1998 attempt to merge four of the biggest banks into two monster banks (prevented by the federal government with popular support), showed.[55] Had these mergers succeeded, even more branches would have undoubtedly closed.

We have tried to show that financial services, as they now exist, do not serve all Canadians, in all locations, in the manner, at the competitive rates, or with the adequate transparency that they should. Thus we can conclude that changes in the banking system have created the conditions and opened new potential opportunities for new financial services entrants such as Canada Post. In the next chapter, we will examine the history of postal banking in Canada, its success and decline, and the debate around its possible return.

Postal Banking in Canada

This chapter will examine post office banking services offered from 1867–1969 and the current debate since 1969, including studies recommending postal banking, and the opinions of Canada Post presidents. The chapter will also look at the positions of major political parties as well as major stakeholders such as unions.

Postal banking is not something new to Canada. For over a hundred years after Confederation, Canada had a postal savings system. In fact, the proposal to adopt the Post Office Savings Bank system in Canada was introduced in Parliament during the November 1867 session, only a few months after the British North America Act was signed on July 1. A financial crisis in Canada in October 1867 may also have hastened its creation. The traditional banks were worried at the time that they would lose deposits, so a limit of $1,000 was fixed on savings and a rate set at 4%.[56]

The Canadian Post Office Act of 1867, in its savings bank clauses, was modeled after the British Post Office Savings Bank Act. The British postal banking system had begun in 1861 and was set up to provide a guaranteed savings system and to provide the government with a "financial asset" to help pay down its debt.

In 1876 the initial requirement in the Act, that the Canadian postal savings bank balance be funded in Canadian government securities, was dropped. The balance was now made part of the unfunded federal debt.

The Post Office Savings system started to function in Canada in 1868. It began with 83 locations and was ramped up to 343 by 1884. By 1884, there already was a balance of $13 million from 66,682 depositors' accounts. In Ontario, 1 in 34 citizens had an account; in Quebec, 1 in 136. An observer remarked that in Scotland, the ratio was 1 to 35, "to which the proportion in the Province of Ontario bears a close analogy." The largest percentage of depositors in the Canadian system was found in major cities, not in rural districts.

Initially the system operated mainly in Ontario and Quebec, because in the Maritime provinces the Post Office Savings Bank had to share the savings market with savings banks originally set up by the provinces and then later run by the Finance department. It was finally decided to merge the two systems into the Post Office department.[57]

One study links the decline of the Postal Savings Bank system to the decision of the Minister of Finance, in 1898, to lower the interest rate on deposits as a result of lobbying by the chartered banks.[58]

Other institutions, such as the caisses populaires and credit unions began in 1900 with the creation of the first credit union in Lévis, Québec by Alphonse Desjardins and in 1908 with the founding of CS Co-op (now Alterna Savings) also by Desjardins in Ottawa. The credit unions and caisses populaires offered alternate savings institutions for working people.

The high point of deposits for the Post Office Savings Bank was $47.5 million total in 1908. This would be around $1 billion in today's money. The total shrank to $17.2 million in 1968.

In 1968, the Postal Savings Bank was closed down although the legislation still remains on the books today. Eric Kierans, Postmaster General in the Trudeau Liberal government announced the closing, which meant that 290,000 accounts had to be shut down, although interest was paid until the end of 1969.[59]

Support for Postal Banking

Over 45 years have passed since the closure of the Post Office Savings Bank. Today the debate around the need to revive or relaunch a Post Office Bank has begun to grow again. Support for postal banking has come from a wide range of sources.

Management Support

Until recently, there has been a continuum of support from Canada Post management for increased postal financial services. Past presidents and CEOs of Canada Post, from the first president Michael Warren, to André Ouellet and Moya Greene, have endorsed the idea of Canada Post getting much more involved in financial services.

Michael Warren, President of Canada Post from 1981–85, said before the Rotary Club of Ottawa in 1982: "We have post offices in more than 2,000 communities where there are no banks. But the breadth of transactions taking place in those offices is not large enough in relation to their capital costs. We could consider providing any number of services that would benefit from a widespread retail network…perhaps an indirect role for the chartered banks on a fee for service basis. We may also have a part to play in the catalogue sales business or in travel… maybe insurance."[60]

In 1998, before the House Standing Committee on Finance, Mr. Ouellet also supported the idea of postal financial services.

> When you look at the Post Office Act you see there is a section that is dormant, because from very early on all the small post offices were able to receive deposits. For a number of years we've been doing some financial services for the community.
>
> As the banks expanded their branches throughout the country, a decision was made to stop providing these services and no longer compete with the banks. So the financial institutions of Canada basically occupy all of the territories, but as the numbers have been indicated to you, there are still a lot of areas in Canada that are not covered. If the movement is to close more branches, that will mean that fewer and fewer Canadians will have direct access.
>
> We have come here to tell you not to forget that Canada Post used to provide this service. We could do it again by just enacting the dormant section. You don't even have to amend the Canada Post Corporation Act. The section is there that would allow us to do it. You just re-enact the section and we will resume receiving deposits, as we used to do in the past.

Mr. Ouellet described the possible forms postal banking could take:

> There are different ways of doing it. We could do it on our own, as we used to do it, or, as Mr. Tremblay said, we could do it in conjunction with financial institutions, with other banks. We could do it as an agent for other banks. There is a spectrum here. Obviously we have not finalized our study and we have not come to a conclusion on which way we should go if we were to do it again. It's just a reminder to parliamentarians that in the not-too-distant past the postal outlets were receiving deposits, and we could do it again.[61]

He also noted that Canada Post had a pilot project offering financial services with an existing bank in the North.

In April 2010, Canada Post CEO Moya Greene went before the Senate Standing Committee on Finance to back the need for Canada Post to get into financial services in a big way:

> These are the two areas — electronic communication for transaction mail and online marketing offers for direct marketing mail — where we would build on what we have. However, we also need to diversify the revenue stream and be in wholly different businesses than we are today.
>
> I note, for example, that many postal administrations have made a success of banking. New Zealand, for example offered a limited banking service, but about eight years ago, they moved into more financial transactions. Canada Post has over $1 billion of money order business. For many small businesses in Northern Canada that money order business operates as a bank for them. We do a lot of verification for credit card customers to ensure that the people showing up are the people who should get the card. We think this trust category of servi-

> ces can move in the future, as many postal administrations have done, into a more traditional and generalized banking offer. We are considering that now....

Ms. Greene went on to describe the value of postal banking services in New Zealand and Italy:

> We communicate regularly with postal companies around the world. We have seen New Zealand, where they started offering banking services in 2002, and by 2009, it was probably 30 per cent of their revenues and 70 per cent of their profit. It is possible. It does not just leverage your existing retail outlets because, in some cases, in order to offer a successful financial offer it is actually not going to be appropriate in those outlets; it has to be in other places. We are looking at that and at Italy, which did the same. Italy offered their banking services at the same time they entered the cell phone communications area. They became, in a short space of time — I will say 24 months — the key wireless payment mechanism in Italy for small payments. They did a deal with a clearing house, and many of the things that had to be done internal to the banking establishment are not so today. Many areas of the back office can be outsourced, and that makes many new things possible.[62]

However, a month later, Ms. Greene had moved on to become the CEO of Royal Mail in the UK, where modern financial services for the postal system have been much more ensconced since 2003 (see the chapter Five Examples of Postal Banking).

Canada Post's Present Leadership Not Supportive of Banking Options

Canada Post's present leadership has not been supportive of banking services for the Post Office but has pushed ahead dramatically on expanding the *epost* bill payment services. Such bill payments are a part of postal financial service offerings in other countries.

Canada Post also recently commissioned a study by the Conference Board of Canada, *The Future of Postal Services in Canada*, which failed to recommend financial services or even to examine their possible application in Canada. It began with a very favourable analysis of the effects of financial services in post offices around the world:

"For international postal operators, the primary new business line being entered is financial services. In some countries, such as Japan and Great Britain, financial services have been a core element of the post office for many years. In other countries, financial services have been gradually introduced to postal services over time. The addition of financial services through postal outlets offers many potential benefits. For instance, it can facilitate financial inclusion in rural areas while also mitigating the decline in postal revenues. Postal banks serve large markets, but can be low in incremental cost because they make shared use of the postal retail network. According to a discussion paper of the United Nations Department of Economic and Social Affairs, banking revenues in many countries are actually essential to generate profits from their postal networks."[63]

The Conference Board then went on to note that the high public trust in the post offices helped in their delivery of financial services.

> Postal services are generally accepted as safe, trusted, reliable institutions. As such, the public tends to view postal financial services as a 'safe haven.'

The study noted the worldwide success of postal banking:

> The Universal Postal Union (UPU) estimates that more than 1 billion people worldwide conduct banking through postal services and, in 2010, 51 postal operators worldwide held 1.6 billion in savings and deposit accounts.

It underlined the success of postal banking in developed countries similar to Canada:

> Financial services have also been lucrative for postal operators. For instance, Germany's Deutsche Postbank increased its total volume of savings by 21 per cent in the first half of 2009 alone, and its market share increased by 10.3 per cent. For PostFinance, the financial branch of Swiss Post, financial services were the main driver of growth, leading to an 11.5 per cent increase in net profit in 2009. In the first three quarters of 2009, PostFinance saw a 4 per cent increase in the number of new customers; a 5 per cent increase in the number of new accounts; and an exceptional year with the first three quarters of 2009 outperforming 2008 by 75 per cent. This was also true for Poste Italiane, which recorded a 5.5 per cent drop in its postal services' segment revenue. But due to its growth in the financial and insurance services, Poste Italiane saw overall revenues increase by 13 per cent.

It even referenced the recent swift success of the Kiwibank in New Zealand:

> In New Zealand, the government-owned postal service set up Kiwibank as a subsidiary in 2002.... Within the first five years of its creation, 500,000 customers (or approximately 13 per cent of New Zealand's population) transferred their deposits to Kiwibank. In the second half of 2011, Kiwibank had a return on equity of 11.7 per cent.

Surprisingly, after this effusive praise for postal banking, the Conference Board study simply nixed any possibility of recommending financial services with the following three sentences:

> Canada has a highly developed financial services sector that extends from large banks to small credit unions. While there is clearly room for Canada Post to explore digital products involving financial transactions such as invoicing and bill payments, the conditions that allowed other postal administrations to succeed in banking do not exist in Canada. Therefore, this report does not explore financial services as an option in Canada.

What are these "conditions" that do not exist in Canada? The report does not elaborate. But Canada does have similar banking conditions to countries such as Switzerland and the UK.

- Big established banks among the top world banks.
- An uncompetitive system where a few major banks control the vast majority (85% or more) of the market in an oligopolistic fashion.
- A lack of services in rural, northern and inner city neighbourhoods.
- A lack of new innovative banking products for Canadians from which to choose.

So rather than a serious study of how postal banking might or might not work, Canadians were deprived of any real public examination of the issue in a report that was supposed to examine all possibilities for the current Canada Post management.[64]

Library of Parliament Study in 2005 Supports Financial Services

In 2005 an important study from the usually more neutral Library of Parliament research services supported the extension of financial services as an important means of preserving the post office across Canada and particularly in rural areas. "At present, the idea of establishing a postal bank underpinned by Canada Post's network is not based primarily on a need to change the banking landscape. Rather, it stems from the growing need to breathe new life into Canada Post so that it can both cope with globalization and guarantee universal postal service, which is a real, if not official, part of its social mandate, particularly in rural areas. With the prospect of even more intense globalization and technological change, Canada Post risks stagnation or even financial losses.

According to two consultants referenced in the report,[65] today's postal administrations can either sink, while continuing to complain about declining mail volumes and electronic alternatives in a 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."[66]

Popular Support

If most Canada Post managers have expressed support for postal banking over the years, the support of most Canadians has also been very recently confirmed. A survey by Stratcom of 1,514 Canadians from May 24–26, 2013, commissioned by The Canadian Union of Postal Workers (CUPW), showed that nearly two-thirds (or 63%) of Canadians "supported Can-

FIGURE 7 Canada Post Adding Revenue-Generating Services, Including Financial Services

Strongly Support	21%
Somewhat Support	42%
Somewhat Oppose	19%
Strongly Oppose	18%

Note Results from an on-line survey of a representative national sample of 1514 adults Canadians, May 24–26, 2013
Source Stratcom Poll on popular support for postal financial services, http://www.cupw.ca/index.cfm/ci_id/14575/la_id/1.htm

ada Post expanding revenue-generating services, including financial services like bill payments, insurance and banking."

The Stratcom poll also found that "there is no appetite for major changes such as postal privatization and deregulation. 69% of poll respondents opposed privatization of Canada Post and 71% opposed allowing private companies to deliver letter mail in Canada."[67]

Union Support

The Canadian Union of Postal Workers (CUPW) has been a major supporter of the idea of Canada Post offering financial services since 1984. In its backgrounder for negotiations that year, CUPW said one of the new services needed to sustain the post office was financial services: "Bill payments such as utility bills and credit cards, etc. could be accepted at all wickets. The Post Office Savings Bank could be established." And in the same document CUPW reprinted Michael Warren's comments in support of postal banking services.

In a more recent statement in 2010, CUPW again mentioned the need to innovate and noted one of the major innovations should be financial services.[68] The union cited Moya Greene's support in their statement.

> Between 1867 and 1969, the Canadian Postal Savings Bank provided basic banking services at branches across Canada.
>
> Earlier this year, former Canada Post President Moya Greene indicated that the corporation is thinking about getting back into banking.
>
> CUPW would like the corporation to do more than think about banking. We'd like to see a plan. There are many good reasons to move forward.
>
> 1. It would help Canada Post make money and increase the corporation's ability to invest in public postal service and jobs.
>
> 2. It would give people access to banking services in communities that do not have banks.
>
> 3. It would make it easier for people to get basic financial services, like credit, without having to pay exorbitant fees through loan companies.

4. It would give small businesses and groups access to financial services in their communities and help stimulate local economies.

5. It would help Canada Post diversify like other post offices around the world and leave the corporation less dependent on mail.

6. It would provide meaningful work and new and interesting jobs for CUPW members.

Time to Move Forward

When Canada Post became a crown corporation in 1981, then President Michael Warren argued for banking services at retail counters. He said there were 2,000 communities across the country with a post office but no bank. He thought the postal service should step in and fill this vacuum. The need for a postal bank has grown since this time. In the past 20 years, more than 2,000 bank branches have closed, mainly in rural and low-income areas. We still don't have a postal bank but many other countries do.

In the world today, 1.5 billion people use postal financial services each year and more than 400 million people have postal bank accounts."[69]

CUPW's statement also noted the wide variety of models:

There are several different models that Canada Post could consider.

Brazil's post office partnered with a private-sector bank to greatly increase the availability of banking services in all regions of the country.

New Zealand Post established its own bank — Kiwibank — in 2002. It now has more branches than any private-sector bank in the country.

France's postal service, La Poste, launched its own bank in 2006 and now has over 11 million postal banking accounts.

Italy's post office expanded its traditional savings bank services in partnership with private-sector banks. It now gets 55% of its revenues from postal banking services.

India Post offered financial services but now the government is looking at setting up a postal bank to help service the rural poor.

The United Kingdom's Post Office partnered with the Bank of Ireland to offer banking services. But the Post Bank Coalition wants better banking services and is campaigning for a bank run by the post office. The government recently indicated it is thinking about allowing all banks to use postal counters for savings bank transactions."[70]

Political Positions

NDP

The New Democratic Party has supported the expansion of financial services in Canada Post. On April 23, 2013, in response to the Conference Board of Canada study commissioned by Canada Post that favoured cuts to service but not the introduction of financial services, the New Democratic Party issued a statement entitled, "*Government must reject reductions to postal services*."

The statement by NDP Critic for Transport, Infrastructure and Communities, Olivia Chow noted:

> For over one hundred years, Canada Post has provided a critical and essential service to Canadians. Instead of service reductions, the government must aggressively explore new opportunities to provide better and expanded services, and generate revenue through e-commerce.... Conservatives have been reducing postal services to Canadians while ignoring opportunities to expand Canada Post services. In Germany, Switzerland and New Zealand, postal services have been strengthened to deliver banking and financial services which have proven to be lucrative.[71]

Ten days earlier a resolution on Postal Banking (6-24-13 Resolution on Postal Banking) from Ottawa West-Nepean was submitted to the April 2013 NDP Party Conference:

> WHEREAS Canada Post Corporation is a publicly owned utility that is currently being underutilized,
>
> WHEREAS the future of the Post Office depends on the expansion of services,
>
> THEREFORE BE IT RESOLVED that the NDP will work with labour, community groups and other interested parties to develop a plan to implement postal banking and other service expansion at Canada Post.
>
> BE IT FURTHER RESOLVED that this plan will be a component of the NDP platform in the 2015 election.[72]

Unfortunately, the resolution was not discussed on the conference floor.

Green Party

The Green Party in its Policy Lab put forward a motion for discussion on a Canada Post Savings Bank from Jean-Luc Cooke of Nepean-Carleton on May 3, 2012. The motion attempts to:

> direct Canada Post to reactivate their retail banking operation (they currently hold a bank charter). The Canada Post Saving Bank (CPSB) would operate a very basic retail banking presence (0% no-fee chequing and maybe 5-year fixed rate mortgages) giving Canadians the option of using a publicly owned bank. The driver for such a Crown bank can be seen from how the big banks remained profitable during the depths of the 2008–09 crisis, on the backs of user fees. More importantly, remote communities need basic banking if any economic activity is expected to take place.
>
> Canada Post Retail Bank
>
> PREAMBLE:
>
> WHEREAS remote communities currently pick up cheques from CANADA POST retail and walk 5 meters to get them cashed;
>
> WHEREAS remote communities are underserviced by retail banking;
>
> WHEREAS effective banking is a prerequisite for economic activity and growth;
>
> WHEREAS during the worst economic downturn since the great depression in 2008–

09 the 5 major banks remained profitable on the strength of their customer user fees which indicate the fees are too high;

WHEREAS Canada has a long tradition of using crown corporations to amplify and attenuate market conditions through competition;

WHEREAS Canada Post has a massive retail presence coast-to-coast-to-coast;

OPERATIVE:

BE IT RESOLVED THAT Canada Post return to operating an elementary retail banking service.

Conservatives and Liberals have no public positions on this issue.

Having shown that changes and trends within the financial service sector offer opportunities and favour the potential entry of new players, and that a real interest in postal banking exists among the general public, Canada Post managers, unions, and political parties, let us next look at the global success of postal banking. In particular, we will examine the success of postal banking in five countries — the UK, France, Italy, Switzerland and New Zealand — as well as a range of services, many of which could be implemented in Canada, and a cadre of experts in postal banking who could help develop a new range of services.

Examining the Status of Postal Banking Around the World

POSTAL BANKING HAS deep roots around the world and is entering a period of expansion of services. This has been shown in a major global study of postal banking recently carried out by researchers of the Universal Postal Union. UPU was founded in 1874 and, in 1948, became a specialized agency of the United Nations. It has 192 member countries, including Canada.

The UPU report on postal banking was presented at the October 2012 UPU conference in Doha, and the final version published in March 2013. The study shows that "After banks, postal operators and their postal financial subsidiaries are the second biggest world-wide contributor to financial inclusion, far ahead of microfinance institutions, money-transfer organizations, cooperatives, insurance companies, mobile money operators and all other providers of financial services."[73]

Growth in the people using postal banking services has been more rapid in developing countries, where few traditional banking outlets exist (from 70 million to 500 million accounts between 1980 and 2011). It is also significant that growth in industrialized countries with well-established banking systems has also been substantial (from 170 million to 220 million accounts over the same period).

The research showed that in 2010, out of 123 postal systems surveyed, 51 postal operators held 1.6 billion savings and deposit accounts (this includes China). "If we take a conservative position, and assume that an average postal client has 1.5

accounts, this means there are more than 1 billion people banked through the Post."[74]

The report also showed that while only 8% of postal operators did not offer some form of financial services there was still room for expansion as many postal operators surveyed did not offer account-based financial services. The report noted that "with 660,000 contact points in the world, Posts and their financial subsidiaries come only second to banks in their potential to contribute to financial inclusion. There are 523,000 bank branches and ATMs in the world, according to the International Monetary Fund."[75] The UPU is determined to increase financial services as a means of promoting financial inclusion and "has entered into valuable partnerships with the International Fund for Agricultural Development (IFAD), the World Bank, the Alliance for Financial Inclusion and the Bill & Melinda Gates Foundation, as well as others, to research and develop financial inclusion through the postal network."[76]

One of the significant contributions of the report was to break down the kind of financial services offered in postal systems into six major business models:

Business Model 1
Cash merchant for government and financial services providers (present in 83% of countries). Under this model, the postal service offers no opening of new accounts, only transactions on existing bank accounts.

Business Model 2
Proprietary electronic remittances and transactional financial services (present in 63% of countries). Postal money orders and various kinds of electronic payment services and domestic and international transfers.

Business Model 3
Partnership with a financial service provider (present in 24% of countries). This model is a revenue-sharing partnership with a financial partner such as a bank, often based on a fee-per-transaction. The UK model, which we highlight later, is an example of this through its partnership with the Bank of Ireland. But the Post Office also offers cash-merchant services to other banks for transactional services, similar to Business Model 1.

Business Model 4
Unlicensed postal financial services, including account-based services (present in 24% of countries) The prime example of this is BancoPosta, a division within Poste Italiane (PI), which we highlight later. BP does not have a banking licence from the Central Bank of Italy. It offers savings products and other products such as loans and mortgages, which are offered in partnerships with other banks.

Business Model 5
Licensed postal financial services (present in 9% of countries). The prime example of this is China's postal bank, the world's biggest, which has secured a bank licence. It has more than 870 million accounts and is the fifth-largest bank in China. The Swiss

Postal Office recently secured a banking license for PostFinance, its financial service, but it still does not offer its own loans, credit or mortgages.

Business Model 6

When the postal operator rents space to a financial service provider to sell its services. There are no examples of this in high-income countries but Malawi is one example in Africa.

In conclusion, the study showed:

- There are 10 common factors that have been proven to lead to success in postal banking: i) network; ii) staff; iii) financial capacity; iv) trust; v) automation and process integration; vi) willingness to foster financial inclusion; vii) governance between the Post and postal financial services; viii) legal and regulatory framework; ix) marketing; and x) flexibility.[77]
- Post offices in business models (BM) 3–5, which offered their own savings, insurance or loans services (whether licensed or unlicensed) had a higher share of income from postal financial services than those in a partnership model or transactional models such as BM 1 and BM 2. The examples of the Swiss versus the UK experience, which we detail later, would tend to substantiate this finding.
- While postal financial outlets provide a majority of the financial access points in low-income countries, even in the highest-income countries, postal banking is providing over 30% of the access points.
- In high-income countries, which generally enjoy high levels of financial inclusion, "there are pockets of poverty and exclusion, particularly concentrated among certain groups that are under-served in terms of financial services. This is especially true of migrant populations and religious or ethnic minorities that are economically disadvantaged. For example, in France, a large proportion of migrants are banked through the postal bank, which has the mandate to open accounts to everyone without any sort of discrimination."[79]
- The recommendations to postal operators in high-income countries was to "continue offering low cost but high quality products for the vast majority, and to launch or put emphasis on government payments, savings and international remittance transfers, which are services the underbanked and migrants most need. This can help the financial inclusion process in the developing world especially if international transfers are made on an account-to-account basis. In that case, we can expect a "double-banking" process, where the migrant is banked in the destination country and the migrant family also becomes banked in the receiving country."

Finally, the use of financial service by post offices is something that has been supported not only by the UPU but by a major international consultancy group.

Accenture publishes an annual review of 26 postal systems and the 2012 and 2013 editions are the fifth and sixth in the series. In both of these reviews, the firm attempts to show the need for postal systems to embrace new practices such as financial services. Both Accenture studies, which include Canada Post, denominate CPC as a "traditionalist" in their four categories of post office types (of which the other three are "global players, regional diversifiers and service providers").

In the 2012 study, Accenture emphasizes that, "Full-scale banking services are systematically becoming part of the retail value proposition mix, as postal organizations focus on the productivity of the post office network to diversify revenue streams and protect margins through higher profit revenue streams. As market commentators have identified,there is potential for postal operators around the world to target 1.1 billion new account holders."

Accenture then notes there is a difference between postal financial services in the developing and developed worlds: "However, analysis of successful postal models for financial inclusion shows that there is no 'one-size-fits-all' approach. While there is a wide heterogeneity in terms of models for the provision of financial services through postal operations, there is a strong commitment to financial inclusion policies across all BRIC countries—Brazil, Russia, India and China." It then notes that in developed economies, "the divestment of banking operations by postal organizations is picking up speed, due to factors such as improving liquidity, focusing on core competencies and the removal of mandates to provide banking services." The study goes on to show that there is a still an excellent future in developed countries for postal financial services. "Postal banking products differ in developing and developed economies with the former offering basic products, for financial inclusion purposes, and the latter offering a complete range of banking services."

They also list their own set of categories for financial services:

> Postal operators are adopting four models in developed economies:
>
> - Broad financial services
> - Narrow financial services
> - Partnerships with banks
> - Banks using post offices for retail
>
> The model for financial services diversification has been influenced by the incumbent's strategic, political and economic situation and capabilities. For example, Poste Italiane offers extensive financial and insurance services through its post offices while Correios (Brazil) is driving financial inclusion through the use of mobile banking.[80]

In their 2013 report, Accenture again underlines the need for high performance postal systems to embrace diversification. It uses the Italian example to show the strength in this strategy: "Poste Italiane offers financial services, telecommunications services and expanded retail products through its outlets. In addition, it has created an extensive consumer database across its business units that results in a differentiated customer experience at the retail counter. Cross-selling revenue and improved customer satisfaction are just two of the benefits this solution provides."[81]

Five Examples of Postal Banking

AS SHOWN IN the previous chapter, there are many large and important postal banking operations around the world, from Japan Post Bank, the world's largest deposit holder with ¥203 trillion (C$2.15 trillion) in assets[82], to the Postal Savings Bank of China, the fifth-largest commercial bank in China with over 400 million customers,[83] to the Deutsche Post Bank, which is now owned by Deutsche Bank but remains one of the largest in Germany with its own network of over 100 branches and 4,500 postal outlets.[84]

This chapter describes five successful models in industrialized countries, the United Kingdom, France, Italy, Switzerland and New Zealand, which have all maintained an important relationship between the financial services offered through post office outlets and the post office. These countries have been chosen because of their relevance to Canadian options. In all five countries, the Post Office is publicly owned.[85]

The United Kingdom's Post Office's financial services, in their present form, offer a model which is based on a major partnership with a private sector financial institution, some new and innovative products, as well as access for customers of most existing banking services.

France's Banque Postale is a chartered bank owned by the Post Office that offers a wide range of products, including insurance and is particularly concerned with offering products to the NGO and mutual sector as well as to low income citizens. The bank makes the list of the world's top 50 safest banks.[86]

Italy's BancoPosta presents the model of a non-chartered bank that offers a wide range of services and excels in offering them through mobile phones as well as banking cards.

Switzerland's PostFinance, wholly owned by the Swiss Post Office, is the leader in money transfers and one of the largest banks in a country famous for its private sector banking. It has just become a chartered bank this year. It also offers mortgages and loans in partnership with major private sector financial institutions.

Finally Kiwibank, owned by New Zealand Post, is a relatively new entrant in the world postal banking sector and has been able to offer a wide range of services, including special mortgage products to low income earners and to the Maori community.

United Kingdom

Financial Services in the UK Post Office go back to the mid-1800s, when it became the first post office to offer savings products.

Just as the UK is deemed to have started the modern postal service with the invention of the postage stamp in 1840, the UK was the first to start postal financial services with the creation of the Post Office Savings Bank (POSB) on September 16, 1861. Canada's Post Office Savings Bank began a few years later in 1868. As the UK Postal Museum website states: "The Bank was set up to encourage ordinary people to save money safe in the knowledge that it was secured by the government." [87] The Bank provided a huge financial asset to the government. As time went by other products were offered, including government stocks and bonds in 1880, war savings in 1916, and premium savings bonds in 1956.

In the last decade, financial services at the UK Post Office have been revived in a new format to help save the post office and offer new competitive services.

In the 1960s, Harold Wilson's Labour government made the first major change in postal financial services. Under the policy initiative of Tony Benn, the government's first Postmaster General, it established the National Giro in 1968 as a new bank. The aim of the technologically-modern bank was to serve those without bank accounts — which then was the majority of UK citizens, whom the major banks were not targeting.[88] At the time, most employees in the United Kingdom were paid weekly in cash and the new bank allowed the quick transfer of money and bill payments.

The bank first operated at a loss due to high start-up costs. But by 1971, the National Giro broke even and by 1972 it started to turn a profit.[89] As Benn commented at the 40th anniversary of its establishment in 2008,[90] "We set up a bank without nationalising anything.... It became the sixth-biggest bank in Britain." [91] The renamed National Girobank was profitable and successful and:

- received 25% of all cash deposited in banks in the UK;
- was the first bank in Europe to adopt optical character recognition technology;
- was the first UK bank to offer free accounts to individuals;

- was the first bank to offer interest-bearing current accounts;
- was the first bank in Europe to offer telephone banking service.[92]

During the same period, the government also made the Post Office Savings Bank a separate government department accountable to Treasury ministers and renamed it National Savings. The post offices were then turned into distribution points for National Savings products. In 1996, National Savings came under the Chancellor of the Exchequer and, from 2002, it was renamed again National Savings & Investments (NS&I).[93] Today the NS&I continues to function as a distributor of savings products for the UK government, but savings holders can also withdraw and deposit at the post office.[94] NS&I is today "one of the largest savings organiations in the UK, with over 26 million customers and more than £100 billion invested."[95] It is organizationally totally separate from the Post Office.

Under the Conservative government of Margaret Thatcher, in one of the last acts of privatization of her government in 1990, the National Girobank was privatized and acquired by Alliance & Leicester, a building society, which is a kind of member-owned bank, i.e., equivalent to credit unions in Canada. In 1997 Alliance & Leicester privatized its assets.[96] In 2003, Girobank became the Alliance & Leicester Commercial Bank. In 2008, the Spanish Bank Santander acquired Alliance & Leicester.[97] Santander is the largest bank in the Eurozone with 100 million customers and has the largest branch network in international banking.[98]

Under the Labour Government of Tony Blair (1997–2007), the idea of postal banking was resuscitated in a deal with the Bank of Ireland. This new initiative came about as Tesco, Britain's large supermarket chain, and other retailers began to open financial services, while at the same time mail volumes began to decline.[99]

The partnership, with the privately-owned Bank of Ireland, involved setting up a 10-year jointly-owned company, MidasGrange, which would control the process. From 2004 on, through the partnership, the Post Office offered personal loans, savings accounts, credit cards, personal insurance and mortgages through the post office branch network, via the telephone and over the web. At the time, the Post Office had 16,900 outlets.

David Mills, chief executive, Post Office Ltd, said at the time: "Post Office Ltd's retail network is larger than all the UK banks and building societies put together. Our branches serve approximately 29 million people who make some 42 million visits to our branches each week; 27 pence in every £1 in circulation passes through a Post Office branch."[100]

The Post Office and the Bank of Ireland already operated a joint foreign exchange venture, First Rate Travel Services, set up in March 2002 that became the UK's second-largest foreign exchange service. Mike Soden, then group chief executive, Bank of Ireland, said: "First Rate Travel Services generated pre-tax profits of £35 million last year and underscores the potential of this new venture."[101]

In December 2009, near what was to be the end of its run in power, the Labour government initiated a consultation process on expanding post office banking. During the next three months over 2,400 responses were received.[102]

The top products the public wanted to see were:

- Current accounts: 64%
- Access to bank accounts: 55%
- Business account: 54%
- Children's savings account: 49%
- Weekly budgeting account: 42%
- Credit unions: 37%

In March 2010, the government responded to the consultation and announced plans to expand post office banking, including commitments to: [103]

- Establish 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 children's savings accounts;
- Explore the development of a Post Office business bank account;
- Increase government funding for the network of post offices with funding of £180 million to support the Post Office network "at around its current size";
- Establish a 10% down-payment mortgage targeted at first-time home buyers (Mortgages providing up to 90% of the cost of buying a home were to be offered to first-time buyers.);
- Establish a new "Saving Gateway" account, with the government to add 50p to every £1 that people on low incomes save;
- Provide services to small businesses.

With the change of government in May 2010, to a Conservative-Liberal Democratic coalition, most of these proposals came under review or were terminated, but some were continued. In September 2010, the new coalition government announced the privatization of the Royal Mail and the separation of the Post Office from the Royal Mail. The Post Office would not be privatized but could be mutualised in the future.[104] The Postal Services Act, which announced the Royal Mail's privatization, also said at least 10% of the shares would go to its employees.

The new government also scrapped the Labour Savings Gateway scheme for low-income earners, which was to be administered through the Post Office.[105]

In April 2012, the Post Office finally separated from the Royal Mail. The Royal Mail is now the organization that picks up and delivers the mail while the Post Office manages the physical post office outlets, most of which are franchises. It then began to examine ways to increase its balance sheet.[106] In July 2012, the government, in a major position paper titled *Building a Mutual Post Office*, committed to freezing the branch closure program and maintaining a network of at least 11,500 offices: "90% of the UK population (and 99% of those in urban areas) must live within a mile of a Post Office." It also committed to invest £1.34 billion to 2015 to "support and modernise the network."[107]

One of the key goals was "Supporting the Post Office as it expands the range of accessible and affordable personal financial services it offers to customers."[108] Growth in revenues was seen "particularly through Government and financial services provision." Government services provision means that the Post Office bids for government contracts to deliver products such as drivers' licenses, etc.

As the Post Office Limited (POL) 2011–12 annual report states: "operating profit from continuing operations before exceptional items for 2012 was £30 million (2011 £11 million) after including receipt of £180 million (2011 £150 million) in respect of the Network Subsidy Payment."[109] In other words, while the Royal Mail is extremely profitable in its delivery services, the Post Office is heavily reliant on government subsidies. Today, however, the financial services represent about 25% of total revenues and they are growing.[110]

The Post Office continues to be "visited by a third of the UK population — just under 20 million people — and half of all small businesses visit one of over 11,500 post offices every week."[111] The Post Office network involves over 11,800 branches but most are franchise branches. State-owned or "Crown post offices" represent just 3% of the network and are the largest branches handling 20% of all transactions and 40% of financial services sales. In April 2013, the Post Office announced plans to franchise off 70 of the remaining crown branches.[112] The Post Office, like Canada Post, still has more branches and outlets than all the banks combined.

Financial Services today range from the newly introduced (April 2013) current accounts to:

- Mortgages
- Savings
- Loans
- Money Transfers
- Credit Cards
- Insurance
- Currency Exchange
- Post Office Card Account (This is an account for people without a bank account who receive pensions and benefits from government and tax credits. It is offered by J.P. Morgan Europe Ltd.)[113]

The Post Office also allows deposits and withdrawals to customers with accounts at most of the major banks and it is "one of the country's largest cash handlers, processing around £70 billion of cash and £636 million of coinage every year."[114] Today the POL offers current account withdrawals at a post office from 19 of the largest banks and makes deposits of cash or cheques into 13 of the largest banks.[115] Ninety-five per cent of UK bank debit card-holders have free access to their cash at all Post Office branches across the UK.[116]

In August 2012, the Post Office renegotiated its agreement with the Bank of Ireland and extended it for 11 years to 2023. There are now 2.8 million Bank of Ireland customers in the UK — most coming from the Post Office connection. The deal increased rates for the Post Office and dissolved the joint venture vehicle MidasGrange. The Post Office received £3 million from the Bank of Ireland for dissolving MidasGrange.[117]

In April 2013 the Post Office announced new current accounts (chequing accounts in Canada) to be tested in East Anglia until 2014 and then rolled out across the UK.[118] This is a major move in partnership with the Bank of Ireland to offer new competitive products in a highly concentrated oligopolistic banking market much like Canada's. In 2012 the Big Five — Lloyd's, Barclays, RBS, HSBC and Santander — controlled between them 83% of personal current accounts.[119]

There are three new chequing accounts offered through the Post Office:

- a fee-free standard account that comes with a debit card. It is free providing you have money in the account. Customers can have a chequebook and an overdraft.
- a packaged account offering extra benefits for £8 a month with other features such as travel insurance and vehicle breakdown coverage.
- a basic account to help customers avoid costly charges, which comes with a £5 monthly fee.[120] The basic account has a monthly charge but no additional charges. This means that the account, which tries to prevent overdrafts, will not have charges should an NSF slip through. It has a cash card but no debit card, chequebook or overdraft.

The first two accounts have no interest on accounts but a very simple overdraft charge of 14.9% per annum (a low rate by UK standards) and no other fees except for bounced cheques.[121]

The Post Office believes the opening of new current accounts will be helped by the decision of the Payments Council Board, starting in September 2013, to introduce a service guarantee that consumers and small businesses will be able to switch all aspects of their current account from one financial institution to another in seven working days.[122] (This was a recommendation of the Independent Commission on Banking.) According to Nicholas Kennett, POL Financial Services Director, this is a key service, as, in the past, it took too long for customers to make the transition.[123]

The Post Office sees the current account as a key relationship-building tool between the Post Office and its customers in order to develop sales of other financial products. But that relationship with the current account has to be transparent, straightforward and honest, and according to Nicholas Kennett, Director of Financial Services, it needs to be fair. "A lot of the bank accounts in the UK are os-

The Case For a Postal Bank

"The Post Bank would be an economic driver, lending at small margins, supporting local enterprise rather than global speculation.

- The current banking crisis provides an opportunity for a radical redesign of banking. Combating financial exclusion and creating rights to a fair, accessible and trusted banking system can best be done through a Post Bank.
- A Post Bank would offer current accounts, access to credit, direct debit facilities, and expand its savings capacity. It would not be shareholder driven and would, through a Universal Banking Obligation, be locally based through post office branches.
- A Universal Banking Obligation, similar to the guiding principle of the Universal Service Obligation of Royal Mail, must be established through a Post Bank based on the unique national reach of the Post Office network.
- The UK economy relies on small businesses which in turn rely on the Post Office and its efficient, affordable and local service. A Post Bank will both safeguard the Post Office network and offer a more extensive range of financial and other services to aid small businesses.
- A Post Bank would reconnect banking with local economies and would liaise with other financial bodies including credit unions and community development financial institutions (CDFIs)."[126]

From Post Bank Coalition, *The Case for a Post Bank*, March 2009[127]

tensibly free for a customer. But as soon as I bounce or get a returned cheque… there are a raft of fees that are attached…."

The Movement for Postal Banking

The UK model is significant in that all political parties, unions, postmasters and small businesses support the continuation and enlargement of postal banking.

The Post Bank Coalition was formed in 2009 to promote the establishment of a Post Office Bank and involves:[124]

- The Communication Workers' Union
- The Federation of Small Businesses
- nef (the New Economics Foundation)
- Unite (a major union)
- The Public Interest Research Centre
- The National Pensioners' Convention

It has been successful in getting expanded financial services at the Post Office but unsuccessful in its goal of a separate state-owned postal bank.

As the Coalition's manifesto, *The Case for a Post Bank*, states "It is important to distinguish between the coalition's proposals for a Post Bank, and the financial services POL currently provides. POL's financial products are currently provided on a purely commercial basis, and are in partnership with the Bank of Ireland which receives 50 per cent of any profits generated. A Post Bank should instead operate independently and while it will run a commercial operation which will make a profit, the Government could use the Post Bank as a vehicle to tackle financial exclusion and help those on low incomes."[125]

France

Another recent success story in postal banking — but a very different model — is the Banque Postale (BP) in France. The Banque Postale was created in 2006 and is wholly owned by the state-owned Post Office group, La Poste. It has grown rapidly and in 2013 had some 10.6 million customers in a country of over 65 million.

The BP also has 446,000 corporate and institutional customers and total assets of some €195 billion. BP made a €791-million profit in 2012 before taxes and €574 million after tax, with banking services delivered through over 17,000 postal outlets across France.[128] It now has 5.2% of the mortgage loans in France doubling its total since 2007.[129] While the bank has a section concentrating on high-income customers, its policy towards the most vulnerable customers is exemplary.

Background

France has a long history of postal services and also of postal financial services.[130] The Caisse nationale d'épargne (CNE) was created in 1881 and modeled on the British Postal Savings Bank initiative of 20 years earlier. The CNE was administered by the post office and offered the forerunner of the famous Livret A savings book system, which was started with over 800,000 users in 1881 and quickly expanded to over 8 million by 1928. It was also the first banking program to offer accounts to women without their husbands' permission and hired thousands of women to work as tellers.[131] Today, the Livret A is held by about 20 million customers.

From the 1960s on, laws were changed to favour commercial banks and limit the existing financial activities of the post office. In 2005, Banque Postale was established as a project to consolidate the financial services of the post office. The Groupe La Banque Postale is organized in three divisions: retail banking, insurance, and financial management.

It has a mandate to encourage:

- Sustainable development (it has won the title of the most sustainable bank in France five years in a row);[132] and
- Financial accessibility
    - It must open a Livret A (savings) account free of charge for any person who so requests. Withdrawals from and deposits to Livret A accounts are authorized starting at €1.5 compared to €10 elsewhere.

FIGURE 8 Division of Revenues by Activity

Mail	49.70%
Parcels/Express	25.60%
Banking Activities	24.10%
Other	0.60%

Source 2012 Annual Report of La Poste Group, http://legroupe.laposte.fr/Finance/Bilan-et-perspectives-Chiffres-clefs-2012

- It offers among the lowest charges of any bank in France and encourages methods of payment other than by cheque for "fragile" clients.
- It offers microcredit loans for those who have been previously financially excluded.

The bank's financial advisers must refuse to sell any products that would risk increasing the "fragile" financial situation of a client.

The 2012 annual report of La Poste Group shows banking activities contribute 24.1% of total revenue.

Financial Performance

The Banque Postale was established only two years before the major financial crisis hit the world and hit the French banking system especially severely. But the success of the Banque Postale can be seen from profits during the period 2006–12, which grew from €372.4 million in 2006 to €574 million in 2012.

About 25% of the total income of the Post Group, La Poste, comes from financial services and the dividend paid by the Banque Postale to La Poste is larger than the total dividend paid to the French state by La Poste.

Lending to Municipalities and Local Government

The BP has also launched into new areas. In March 2013, La Banque Postale and la Caisse des dépôts (the French public pension investor) announced the creation of the "Banque postale collectivités locales," 35% owned by the Caisse and 65% by the BP. The role of this new venture is to finance municipalities and local governments after the collapse of Dexia, a Franco-Belgian bank, which went down during the financial crisis of 2008.

Dexia had been the world leader in funding local governments but its collapse, finalized in 2011, left many French municipalities with serious deficit situations.[133]

The Banque Postale: The Social Economy and Social Housing

The BP has a special relationship with not-for-profits and mutuals (co-operatives and other member-owned organizations). Approximately 335,000 or roughly one-third of all social economy organizations and two-thirds of all mutuals are clients. In 2012, it formed a special subsidiary with 28 special counsellors to deal with their needs. It offers all kinds of financial products for these clients, including loans and mortgages.[134]

The BP has a very strong mandate to encourage social housing and housing for low-income people. In May 2012, the Fonds d'Investissement Durable et Solidaire was created and involved Habitat Réuni, le Crédit Coopératif et La Banque Postale, with the presence of Fédération des Coopératives HLM with a total capital of €125 million to €150 million to support social housing.[135] Habitat Réuni is an association of 21 social enterprises and cooperatives HLM. It has 100,000 social housing units and builds 3,000 new units for ownership and rental.

The Banque Postale is also a big lender to social housing landlords across France for building and renovation. It has created a network of 730 special advisers who are experts in social and low-income housing. Since October 2012 it has also become the main provider of PAS (prêt d'accession sociale), special loans to low-income citizens at low rates and favourable terms for the purchase of housing.[136] The BP is scheduled to lend €350 million for these purposes in 2013 and by 2015 a total of €1.3 billion.[137] It is also starting a social rent-to-buy (PSLA) loan offer to help low-income earners purchase property. It aims to spend €3 billion total by 2015 in the social housing sector.

On April 19, 2013, the bank held the first meeting of a Social Home Ownership Policy Committee, chaired by Philippe Wahl, Chairman of the Executive Board, with leaders from the housing sectors to confirm its commitment to the social housing sector.[138]

Financially Vulnerable Customers

La Banque Postale has expanded its commitment to provide consumer micro-loans, which began in 2007, adding 18 partnerships with organizations working in the social inclusion area (UDAF, CCAS, etc.) in 2011, and raising to 96 the number of partnerships. The philosophy behind these actions is clear on this issue: "The Bank finances personal projects for private individuals who are excluded from normal banking services."[139]

The Bank has also supported 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 put together "a dedicated banking product range and support package for vulnerable customers, together with the major social service partners in France, and specifically with the major voluntary organisation networks."[140]

With the National Union of Communal Centres for Social Action (UNCCAS), BP will provide education and information for people excluded from banking. "This experiment was hailed and recognised in 2012 as good practice in the fight against banking exclusion in France as part of the preparation for the national convention on the fight against poverty and for social inclusion that was held on December 10th and 11th 2012, and at the European level at the Annual Convention of the European Platform against Poverty and Social Exclusion that was held from 5th to 7th of December 2012."[141]

In 2012, in a partnership with the Missions Locales network, the BP developed workshops targeting "young people in difficult financial situations."[142] The workshops are led by young civil service volunteers to whom the BP gave one year of free banking services and two months' free home insurance payments.

In October 2012, BP also helped establish a think tank called "The initiative against exclusion from banking services" to develop new initiatives to combat banking and financial exclusion. Members include: ATD Quart Monde, Adie, Crésus, the French Red Cross, les Restos du cœur, Secours catholique, le Secours populaire and UNCCAS.[143]

Insurance

The Banque Postale also has a large insurance business in personal, home, health, and life insurance. One of its subsidiaries, La Banque Postale Prévoyance is the second-largest French firm in contingency insurance. It also has a larger property and general insurance business, including personal insurance (life and retirement insurance, personal risk and health) and asset and liability insurance (means of payment, home, auto, and legal protection).

In 2012, the Banque Postale Group's insurance business made an overall contribution of €219 million in profits, an increase of almost €39 million compared with 2011.

- Life Insurance: €116.5 billion in life insurance deposits and 4.8 million policies in 2012, representing 8.5% of the overall market.
- Personal Risk: Personal risk products (death, long-term care, funeral, accident coverage, etc.) through La Banque Postale Prévoyance, with more than 442,000 new policies in 2012.[144]

Switzerland

In both the Conference Board report and in the Canada Post Strategic Review, financial services are downplayed as a possibility because, according to both reports, Canada has a large financial services network and therefore would not need more. If there is one country in the world that is best known for the power and strength of its private banking system, which is one of the country's biggest industries and attracts large amounts of out-of-country investments, that country is Switzerland. But Switzerland also has one of the largest and most important postal banking systems.

History of PostFinance

Postal banking in Switzerland started in 1900, when the Councillor Carl Koechlin of Basel submitted a motion to start a

FIGURE 9 PostFinance Profits as a % of Swiss Post

	Operating Profits Swiss Post	Operating Profits PostFinance	Percentage
2012	890	627	71%
2011	908	591	65%
2010	930	571	61%
2009	721	441	61%
2008	812	229	28%

Source Katherine Steinhoff and Geoff Bickerton, Banking on a Future for Posts?, CUPW 2013

FIGURE 10 Charts from PostFinance[149]: Customer Deposits in Millions of CHF (1 CHF = 1.14 CDN $) [2]

2007	43,667
2008	49,265
2009	70,250
2010	80,335
2011	92,225
2012	103,850

Source PostFinance, https://www.postfinance.ch/

"postal and giro cheque service." The first chequing account was opened at the Basel Post Office in 1906.[145] It began its payment services that year, which have remained its key service since that time. In 1978, before the banks in Switzerland had ATMs, they were introduced at PostFinance (PF). In 1997, PF launched investment funds in partnership with the future UBS. In 1998, it began electronic banking and life insurance products with Winterthur (AXA). In 2010, it launched free mobile phone apps for banking.

Today an increasing percentage of the Swiss Post (SP) Group profits has come from financial services. This now amounts to over 71% of total operating profits last year.

With over 3 million customers in a country of 8 million, PostFinance is now one of the top three Swiss banks and is still growing. The most profitable sectors of PostFinance are payment services, as the bank now has about 50% of the total transactions and is number one in Switzerland in payment services.[146] PostFinance has until now been forbidden by the state to offer credit, so credit is offered through partnerships with other banks.

Since the world financial crisis more than four years ago, PostFinance has gained well over 100,000 new clients a year[147] as people look for a safe haven for their money and as major Swiss banks such as UBS and Credit Suisse have run into major problems.[148] For example, UBS, the largest Swiss bank, announced in February 2009 that it had lost nearly CHF 20 billion (US$17.2 billion) in 2008, the biggest single-year loss of any company in Swiss history. Since the beginning of the financial crisis, UBS has written down more than US$50 billion from subprime mortgage investments and lost US$30 billion in 2008. It had to be bailed out by the Swiss National Bank.[149]

On June 26, 2013, the Swiss PostFinance became a state-owned subsidiary of the SP Ltd., the public postal operator in Switzerland, which also became a state-owned company with three subsidiaries: PostFinance Ltd, PostBus Switzerland Ltd., and Post CH Ltd. SP has a workforce of 62,058 employees and is the second-largest employer in Switzerland. In 2013, PostFinance became a chartered bank for the first time, although financial services in Switzerland have been delivered through the Post Office since 1900.

The Swiss Bankers Association (SBA), surprisingly, did not object. It has maintained that all banks should exist on an equal footing. "The [Swiss Bankers Association] insists on a level playing field for all banks operating with a banking licence," according to an SBA spokesperson.[151] But one of the reasons SBA has not objected to a banking license for PostFinance is that PostFinance is still not quite equal to other banks in the kinds of banking services it controls. PostFinance is still not allowed to issue its own credit or mortgage loans and must subcontract this business to private banks. And according to commentators and PF, this is one of the reasons SBA has approved this change.[152]

Italy

Poste Italiane and the Rapid Success of the Bancoposta

The Italian state-owned postal group Poste Italiane Group (PI Group) is one of the shining success stories in postal financial and other services. It has made diversification and modernization a very profitable strategy. Its success as we have shown is even touted by Accenture, a major international consultant to postal services.

Some 80% of PI Group revenues (up from 50% in 2002) now come from non-traditional postal services; 75% from financial and insurance services and the rest from mobile telephone services. Primarily because of its financial subsidiary BancoPosta and other financial and insurance branches, Poste Italiane has been profitable since 2002, after 50 years of losing money.[153] In 2012, the PI Group had total profits of over €1 billion.

History of BancoPosta

The history of Italian postal banking is similar to the UK and Swiss examples. Its financial services have the fourth-longest history after the UK, Canada, and New Zealand. Financial services were first offered by the Italian post office in 1875, when savings books and bonds were offered by the post office on behalf of the Cassa Depositi e Prestiti (CDP), a joint-stock company

FIGURE 11 % Revenues from Non-Traditional Services on Total Revenues 2002–12

	2002	2012	Increase in Earnings Before Income Tax
Royal Mail (excludes Post Office Limited)	7.7	1.8	4%
LaPoste	22.8	24.1	3.80%
DP-DHL (Germany)	47.2	47.3	6.70%
Poste Italiane Group	50.5	80.7	9.80%

Source http://www.poste.it/resources/editoriali/azienda/pdf/PosteItaliane-Investor-Presentation-June2013.pdf

under public control. CDP postal savings bonds and passbook savings accounts are guaranteed by the Italian state.

On February 28, 1998, Poste Italiane was set up as a joint stock company wholly owned by the Ministry of Economy and Finance (MEF).[154] The BancoPosta was set up in 1999 but was not given a banking license nor allowed to loan money.

The BancoPosta was set up to manage the financial services of Poste Italiane. Today, it has some 30 million customers using one or more services. Its total assets are around €430 billion of which €310 billion are in postal savings accounts with 25 million customers. Its assets in 2010 were estimated to be about 10% of the total banking assets in Italy. BancoPosta does business through some 14,000 postal outlets, which is more than twice the number of outlets of the market banking leader. In 2011 BancoPosta Ring Fenced Capital (RFC) (patrimonio destinato) was set up. Through this company BancoPosta RFC assets and liabilities were unbundled from those of Poste Italiane for BancoPosta activities.

BancoPosta revenues in 2012 were €5.312 billion, with profits of €565 million before taxes. The insurance division brought in revenues of €13.833 billion and profits before tax of €371 million. Out of a total of €1.382 billion before-tax profits 67% came from financial services.[155]

From 2002–12, Poste Italiane Group revenues from non-traditional sources went from 50% to 80% of its total, the highest compared to Germany, France and the UK (excluding the UK Post Office and only looking at Royal Mail).

As the following chart (taken from a 2013 PI report to investors) shows, Post Italiane has become the most diversified of the major European post offices in terms of revenue sources.

BancoPosta has become the leader in the domestic market and is now the largest retail bank in Italy and a leading player in Europe in payment cards, issuing around 16 million of them, including 6.6 million debit cards and 9.56 million prepaid cards (Postepay). It also has 5.8 million current accounts.

As one observer wrote:

"Among BancoPosta's products, the Postepay prepaid credit card, introduced at the end of 2003, probably represents one of the most outstanding successes in

Poste Italiane's recent history. As of the end of 2009, over 5.5 million individuals (Note: now almost 10 million) in Italy have chosen the prepaid Postepay card, which can be topped up and allows customers to make purchases and withdraw cash from ATMS."[156] For four years running, the Postepay card has won AIFIN's Cerchiod'oro ("Golden Circle") award for financial innovation in "payment products."[157]

BancoPosta is also the leader in current accounts, personal loans and mortgages. In addition, it is the market leader in Italy in life insurance in terms of premiums issued. In 2012 (under the Poste Vita brand since 1999) BP had a 15% share of the Italian market. It has some 2.5 million clients and 4.6 million insurance policies. It is also one of the biggest banks managing pension plans with 510,000 pension plan members in 2012.[158]

Poste Italiane financial services have also "played a major role in the gradual integration of new immigrants" through transfer services with postal operators around the world.[159]

BancoPosta is not the only bank owned by Poste Italiane (PI). PI is also involved in the development banking industry. In the south of Italy it has a wholly-owned subsidiary, Banca del Mezzogiorno (BdM). The role of BdM is to support "the productive sector in the southern regions, with the aim of supporting economic growth through the provision of credit for young people and women looking to start new businesses and to finance innovative projects."[160]

The control by Poste Italiane of the cell phone company PosteMobile has also allowed it to be a leader of banking through mobile phones. In 2008, it launched a new on-line account, "ContoBancoPosta Click," which can be accessed from the web or by mobile phone via a PosteMobile SIM card. This account has no fees and uses the PostamatBancoPostaClick debit card, which is free.[161] PosteMobile is also the Italian leader in NFC (Near Field Communication) SIM cards for contactless payments. In 2012, mobile payment services with Remote Financial Services and Proximity Payments (NFC) together reached a total of 23.4 million transactions (18.7 million in 2011).[162]

New Zealand

One of the biggest recent success stories in postal banking is the Kiwibank in New Zealand. In the 10-year period since its founding in 2002, Kiwibank has grown to be the largest New Zealand-owned bank and the source of more than two-thirds of New Zealand Post (NZ Post) profits. Kiwibank now has more than 800,000 customers in a population of 4.5 million and 900 staff in more than 280 PostShops.[163] About half the branch network is owned and operated by NZ Post. The other half is made up of owner-operated franchises (book shops, video shops, general hardware shops, etc.).

The bank made an after-tax profit of NZ$79.1 million (Note: 1 NZ$ is worth .84 CDN$) for the year ending June 30, 2012, 276% more than in 2011 when it made NZ$21.2 million.[164]

Kiwibank has been voted New Zealand's "Most Trusted Bank" three years in a row at the *Readers Digest* Trusted Brand Awards, and has won the *Sunday Star-Times* CANSTAR Supreme Award for best value bank the last six years running.[165]

To establish the bank, the NZ Post Group made a total direct capital investment in the bank of NZ$360 million by 2012. "The bank received initial funding from the government and an agreement with the owners, NZ Post, to withhold dividends. The bank has a government funding resource available of NZ$300 million, but has not called on it. Capital funding requirements to date have been met by Post and from withheld dividends," according to Kiwibank Director of Communications Bruce Thompson.[166]

This has been a successful investment as today about 70% of NZ Post's profits come from Kiwibank.[167]

When asked "If you were to analyze your success what are the three most important factors that have contributed to your rapid growth?" Mr. Thompson said simply, "New Zealand-owned, better service, better rates."

History of Postal Banking in New Zealand

Postal banking in New Zealand began in 1867, when the Post Office Savings Bank (POSB) was founded the same year as the POSB in Canada. Like its Canadian Dominion cousin, it was modeled on the British Postal Savings Bank established in 1861. By 1906, the NZ POSB had grown to 159,331 accounts with assets of £4 million and by 1964 to 2.5 million accounts worth over £421 million.[168]

The Kiwibank's establishment in 2002 has to be seen in the context of corporatization. In April 1987, the New Zealand Post Office was "corporatized" and split into three separate companies — Telecom, the Post Bank and New Zealand Post — each set up as a state-owned enterprise.

The State-Owned Enterprises Act 1986 required New Zealand Post to operate as:

> 1) as profitable and efficient as comparable businesses not owned by the Crown
>
> 2) a good employer
>
> 3) an organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when it is able to do so.[169]

But two years after New Zealand Post became a separate state-owned firm, the Postal Savings Bank was privatized and sold to ANZ, a large Australian-owned bank, and was soon completely absorbed.[170]

Birth of Kiwibank

Kiwibank was launched in 2002. It was largely the result of the policies of the left-wing Alliance Party led by Jim Anderton, which governed in a coalition with the Labour Party from 1999–2002.[171]

"The Alliance's biggest gain in coalition with a later Labour Government was the establishment again of a state-owned

Reasons for Kiwibank Success

The Kiwibank of New Zealand, established in 2002, was billed as a no frills "people's" bank. Paul Frampton noted it could build on the following potential strengths and desires:

"**1. Under-utilised branch network:** New Zealand Post is committed to retaining its retail network and over the last few years has increased the number of PostShops. However, the basic business of New Zealand Post and its retail network has been in decline for some years due to the reduction in the use of physical mail. Consequently, New Zealand Post has been investigating other business opportunities that leverage off its current position and capabilities, including offering a full banking service.

2. Community access to low cost banking services: There is a market gap in New Zealand that is not being well served by existing banks. Banks in New Zealand are not currently well regarded primarily due to the fees and charges they levy that are believed to be excessive, non-transparent and unreasonable in many instances.

- The existing banks appear to be increasingly focussed on servicing the 'high net worth' segment of the market at the expense of the remainder of the marketplace.
- Many customers regret the reduced access to banks caused by bank branch closures
- Banks are currently earning a significant return on capital of around 25%
- The banks in New Zealand are mainly foreign owned and profits are being repatriated overseas
- Many New Zealanders are supportive of a New Zealand owned bank with a truly national coverage where profits are retained in New Zealand and not repatriated overseas
- A new entrant into the banking market would be able to achieve a cost advantage through the use of new technology to lower the manufacturing costs. Banks in New Zealand, as is generally the case around the world, are encumbered with expensive and unresponsive legacy technology systems
- New Zealand Post is committed to a nationwide network of franchise and corporate owned shops offering a range of products and services. This would allow a new bank to attract a variable cost for distribution and servicing rather than bear the full cost of establishing its own retail network."

3. Leveraging the Post Brand: Additionally New Zealand Post has a strong brand and position of trust in the community that could be leveraged and is well placed to provide additional services to banking customers such as:

- Better physical access through the extensive network of PostShops. In fact, with between 250 and 314 outlets offering banking services, the new bank will have more outlets than any other bank in New Zealand
- Longer opening hours linked to retail shop hours rather than traditional banking hours."[175]

bank, Kiwibank," notes a recent newspaper article in which the story is told:

> Mr Anderton delighted Parliament with a new story of the negotiations with Labour — and the nudge given by deputy leader Annette King to then Finance Minister Michael Cullen.
>
> Annette King finally turned to Michael Cullen after three hours of this and said these immortal words: 'Michael, Jim's beaten back every argument against the bank we've ever put up, for God's sake give him the bloody bank.' And Michael Cullen... said: 'Oh, all right then.'[172]

But if Anderton deserves a large degree of the credit for convincing Labour to found the bank, the deeper socio-economic reasons are also linked to the state of the New Zealand banking industry. The New Zealand banking industry is controlled by four big Australian banks. As the New Zealand Green Party noted in 2011, "ASB, ANZ, BNZ, and Westpac have collectively sent $8.9 billion out of the country in the form of dividend payments to their parent banks in Australia over the last five years." In 2011 Kiwibank had 2.5% of all banking assets compared to 90% from the Australian Big Four. One of the reasons the Kiwi Bank has gained customers for its services is because it is New Zealand-owned.[173]

One of the key designers of the Kiwibank, Paul Frampton, explained why the creation of a new bank was an opportunity for accessibility. "I guess one of the things that drove the creation of Kiwibank was saying we want customers to be able to access the bank the way they want to access it. So for those people who want to go into a branch, let them go into a branch."[174]

Programs Aimed at Low-Income and Maori People

While it offers excellent competitive rates, Kiwibank also offers one special program aimed at low-income New Zealanders. Welcome Home Loans is a government-initiated scheme to enable people on limited incomes or without significant deposit savings to borrow to buy their first house: "With a Welcome Home Loan, you will only need a 10% deposit to purchase your first home....

To be eligible to apply for a Kiwibank Welcome Home Loan, you must:

- have a total household income of no more than $80,000 a year for individual borrowers
- have a total household income of no more than $120,000 a year if there are two or more main sources of household income and all income earners are co-borrowers.
- have an acceptable credit history
- be able to meet the loan repayments
- buy the house to live in yourself
- not already own a home
- meet Kiwibank's lending criteria."[176]

Maori Housing Loans

In the past, traditional banks were often reluctant to lend for homes built on community-owned land. So Kiwibank started a home building loan program in February 2010 aimed at aiding Maori peoples. The aim of the Kainga Whenua loan program is to "make it easier for owners of Maori land to build on their land." A Kainga Whenua loan allows Housing New Zealand (a state housing corporation similar to CMHC) to insure the loan on the house, but not the land. The borrowers get financed to build, buy or re-locate a home on their land.

In December 2012, the criteria for Kainga Whenua loans were altered to make building on multiple-owner Maori land easier and allow a wider group of borrowers to access lending as well as allowing them to borrow for repairs and maintenance.[177]

Conclusions

Possible Models for Postal Banking in Canada

IN THIS STUDY, we have looked at the wide range of diverse models of postal banking in many countries. In this chapter, we conclude by looking at why postal banking should exist in Canada, how it could work, as well as some of the possible options.

When we examined five national postal banking systems in detail, we found that they were all successful in their own way. However, success did not seem to be linked to: 1) the particular form of structuring of the financial services (which ranged from full ownership by the Post Office to various kinds of partnership with the private sector), or 2) the kind of products offered, as some services offered all major financial products and some fewer. The diversity in successful models shows that the key component for success seems to be characteristics of the Post Office itself, including widespread locations, trust in the institution, and the staff.

Why Postal Banking?

To consider why postal banking could succeed in Canada, let us go back to the three questions we asked at the start.

1. Could offering postal financial services help stabilize Canada Post revenues and services?

Our study has shown clearly that the answer is yes. All five post offices studied, all publicly owned, received a substantial percentage of their sales and profits from financial services while other sources of revenue declined.

Post offices we have examined showed gains from 25% of revenues in the UK, and 36% in France to 67% of profits in Italy,

FIGURE 12 Summary of Postal Banking Models and Services in the United Kingdom, France, Italy, Switzerland and New Zealand

Postal Financial Services	Name of Financial Services Institution(s)	Structure of ownership of Financial Services	Services Offered	Bank Charter	% of Post Office sales or profits for latest year	Rank of Services
United Kingdom	Post Office	Main partnership with Bank of Ireland and agreements with other banks	All financial services, including new chequing accounts	No	25% of sales	No ranking
France	La Banque Postale	La Poste	All services	Yes	36% of before-tax earnings	44th Safest Bank in World
Italy	BancoPosta and insurance companies	Poste Italiane	All services; savings in partnership with the CDP (Cassa Depositi e Prestiti)	No	67% of total profits	Largest retail bank in Italy
Switzerland	PostFinance	Swiss Post, with partnership on all loan and insurance products	All services	Yes	71% of total Swiss Post operating profits	Number 1 in payment services and number 3 in customers
New Zealand	Kiwibank	NZ Post	All services	Yes	70% of profits	Largest NZ-owned bank

71% in Switzerland and 70% in New Zealand. We contend Canada Post could gain substantial additional revenues and profits in a similar fashion.

We have also shown that the argument put forward by the recent Conference Board report, *The Future of Postal Service in Canada* (funded and commissioned by Canada Post), does not hold water. The report concluded that financial services were not possible for the post office in Canada because: "Canada has a highly developed financial services sector that extends from large banks to small credit unions...the conditions that allowed other postal administrations to succeed in banking do not exist in Canada. Therefore, this report does not explore financial services as an option in Canada."[178]

However, all the countries we looked have highly developed banking systems, and all the countries we examined (except New Zealand, where Australian banks dominate) have several banks in the list of the world's 54 largest banks by assets.[179] All these countries, which have successful postal financial services, also have "highly developed financial systems," as do many other countries with both traditional and postal financial services. Behind this line of attack could be the unstated position of the Conference Board that the post office should not compete with the private banking sector.

The Strategic Review of Canada Post completed in 2008 echoed this view: "The provision of financial services accounts for a substantial economic line of business, but this activity is often off-limits to posts that have no historical tradition in this market and/or where there is a fully developed financial sector."[180]

When we look at the possible diversity of financial services offering from chequing accounts, loans, mortgages, and credit to insurance, combined with new technologies such as mobile phone technology, contactless payment and Internet banking, the possibilities for new postal financial services are probably the best they will ever be.

2. Could delivering financial services through the post office offer Canadians competitive new services and diversity of choice?

As discussed in the first chapter, the rise of virtual and new retail banking and the growth of Fringe Financial Institutions show that the traditional financial banking sector is not meeting all the needs of Canadians. Millions of Canadians have opened accounts or are using the services of these institutions. But, although these new services operate in a similar fashion to traditional banks, the institutions tend to be concentrated in urban areas and are not available in many parts of the country. Many Canadians do not have access to this kind of choice. As well, few of these services offer competitive value as shown by the FFIS' usurious interest rates and by the fact that credit card rates remain high in spite of low Bank of Canada prime rates. The new retail banks, such as Walmart, Canadian Tire and President's Choice, offer credit card rates mostly in line with standard bank credit card rates of 19% to 20%, while traditional credit card interest rates on unpaid balances are about 20% and retail stores range up to between 26% and 30%.[181]

It is not only interest rates where competition is limited or rates are too high. As shown in the first chapter, the fees Canadians pay for their accounts are also very high.[182]

One of the reasons for this, as shown in the first chapter, is the oligopolistic nature of the banking system in Canada. In 2012, this system became even more concentrated with the purchase by Scotia Bank of ING Direct, one of the few large banks to offer competitive rates to the Big Six. The 2009 failure of the virtual Canada-wide Citizen's Bank, owned by the country's largest credit union VanCity, and the purchase of its mortgage and loan assets by TD Bank was yet another move towards a more concentrated sector.

A new Canada-wide financial institution could offer products and services that challenge the existing patterns. The ability to offer competition for existing fees would be helped by the fact that banking services would be delivered through existing premises and staff. Use of the e-post system as well as existing Canada Post delivery services could help keep costs low.

This could mean lower banking fees. For example, the UK Post Office (in partnership with a private-sector bank) has just begun to offer new accounts, one of which offers the customer a set fee per month of not more than £5 for all charges.

New postal banking services could also make fees and charges more transparent than is now the case with the traditional banks.[183]

3. Could offering postal financial services allow the millions of Canadians without local bank branches or easy access to banking the access they need?

Here, again, as we have shown the answer is yes.

First, there are many Canadians living in large parts of Canada that do not have physical access to banks or credit unions. The number of banks and credit union branches has shrunk over the last two decades. In rural Canada, many bank branches have closed in small towns and while credit unions have purchased some of these branches, this process has slowed markedly in recent years. Because postal outlets are present in both rural communities and inner city neighbourhoods, new postal banking could offer to citizens and businesses in many communities banking services where they do not currently exist.

At the same time, in Northern and rural Canada, on Aboriginal reserves, and in the three Northern territories, there have always been few banks and few credit unions (no credit unions in the territories). Our study showed only 21 bank branches in the Northwest Territories, Nunavut and Yukon. Postal banking could also offer small businesses in these communities much-needed banking services, mortgages and personal loans at non-usurious rates.

Second, it is estimated that some 3% to 15% of Canadians do not have a bank account. This group alone represents a minimum potential of around a million possible new customers for postal financial services. Many Canadians use fringe financial services at a high personal cost. In a study of Prince George, it was noted that even many of those who had a bank account used fringe financial services instead.[184] New postal banking services could also be combined with legislation requiring the immediate roll-back of FFI interest rates to bring them in line with existing banking rates.

The Kiwibank and Banque Postale are both excellent examples of how a postal bank can offer special services to low-income people, such as home mortgages, rent-to-buy and even social housing loans. In the case of Kiwibank a special mortgage program for Aboriginal peoples has been developed that could be replicated in Canada.[185]

What Strengths Does Canada Post Have That Could Be Translated into Banking?

If we can conclude that financial service sector changes are desirable, what strengths does Canada Post already have that would enable it to begin offering financial services?

1. Canada Post has the largest network of retail outlets already in place across

Canada. Canada Post had a total of almost 6,400 postal outlets in 2012. In 2012, 3,900 were Canada Post-owned and 2,500 were managed by private dealers as franchise outlets. Some 78.9% of Canadians live within 2.5 kilometres of an outlet, 90.6% within 5 kilometres, and 98.8% within 15 kilometres.[186] This means the cost of establishing a financial network is much lower as the physical facilities and communications links are already in place, including delivery and pick up on a daily basis.

2. 3,800 Canada Post outlets or 60% are in rural areas where there are fewer banks and credit unions. The post offices in these locations could provide key services for individuals but also for local businesses.

3. A number of communities in Canada have a postal outlet but no other (or limited) banking services. As we have shown, 1,700 bank branches and hundreds of credit union locations have been closed down over the last two decades. A 2003 Bain study showed that in 30 small towns with a population below 2,000, only seven towns were served by a bank branch.

4. Canada Post has a high trust factor among the Canadian public. The Strategic Review of the Post Office in 2008 noted: "A Nanos poll (commissioned by Canada Post) reported that nearly nine out of 10 Canadians had a favourable or somewhat favourable impression of Canada Post, and seven out of 10 were satisfied overall with Canada Post. This survey result confirms a number of external evaluations of Canada Post, which is recognized as a top 100 employer in Canada by *Maclean's* magazine and which is the most trusted federal institution in Canada, ranking ahead of the military, the Supreme Court, the RCMP and the CBC. Léger Marketing reports that Canada Post ranks third among the 150 most-admired businesses in Quebec. Finally, the Nanos poll also reports that Canada Post has a higher favourability rating among Canadians than UPS, FedEx or Bell Canada Enterprises (BCE)."[187]

This high level of trust is an excellent basis to start financial services. Trust in the post office has been cited by several other countries including the UK, New Zealand and Switzerland as a key reason for their success in postal banking.

5. Canada Post already has an existing skilled and stable workforce that would be open to skills upgrading. Canada Post has a large and skilled workforce of 68,000 employees in 2012, some of whom could easily be trained to handle financial services. The corporation would not need to hire many new staff in postal banking locations. New banking professionals could be hired at headquarters or at regional centres. CUPW, the major union representing Canadian postal workers, supports and promotes the concept of postal banking in Canada's postal outlets.

6. Canada Post already delivers a number of financial services (see next section). Thus it would not mean starting from scratch but rather building on what already exists.

7. Many Canada Post outlets are already open 6 or 7 days a week and could operate longer daily hours than 9:00 a.m. to 5:00 p.m. Many Canada Post outlets operate in drug stores or small convenience stores with long weekday and weekend opening hours. It would not be difficult to increase hours for Canada Post-owned outlets.

8. The federal government already has significant experience in the financial industry. As Canada Post is owned 100% by the federal government, it could use the expertise developed at Bank of Canada.

It could also draw on expertise from other federal banks and financial services set up to deal with the public and with businesses.

- **Business Development Bank of Canada** BDC has over 1,900 employees in 107 locations across Canada and in 2012 made over $531 million in profits and had assets of some $17 billion. Its role is to loan money to small and medium-size entrepreneurs.[188]

- **Farm Credit Canada** FCC has more than 1,500 employees and concentrates on loans to farmers and agricultural businesses. It has a loan portfolio of more than $23.2 billion. In 2011–12 it loaned $7.1 billion to 45,578 customers across Canada with $1.9 billion loaned to young farmers. It had a net income of $565 million in 2011–12.[189]

- **Canada Mortgage and Housing Corporation** CMHC had assets of over $292 billion in 2012 and made over a $1.7 billion in income (profits).[190] CMHC is the largest mortgage insurer in Canada and the primary funder of federal low-income housing.

- **Export Development Canada** EDC made over $1 billion in income in 2012 and had assets of $36 billion. It helps Canadian companies secure loans and insurance for export deals.[191] It is now examining taking positions through major financial transactions abroad even when there are no Canadian companies involved.[192]

- **Canada Savings Bonds** While the program is not valued as much by savers as it was in the past, as of March 2012, the value of Canada Savings Bonds (CSBs) and Canada Premium Bonds (CPBs) in circulation was $8.9 billion. This was a decrease of 12% over the year before. However, $8.9 billion is still a considerable sum and the expertise in administering this program could be used by a new institution.[193]

What Kind of New Financial Services Could Canada Post Provide?

All new services would have to be:

- **Profitable for Canada Post.** Canada Post would examine the best way to deliver each service;

- **Tested regionally** before being launched nationally;
- **Delivered through both bricks-and-mortar locations as well as by Internet and telephone,** including mobile phones;
- **Transparent,** meaning without hidden fees;
- **Fair,** meaning delivered at lowest cost while assuring profitability; and
- **Contribute to financial literacy** in the schools using the kind of financial literacy programs developed by Desjardins in Quebec and VanCity in Vancouver.

Expanding Existing Services

Canada Post already provides some financial services. In the past (until 1968), Canada Post delivered banking services and was a world leader in the 19th century. Getting involved in financial services would first mean extending and revising the existing financial services Canada Post delivers.

Today Canada Post delivers:

- **Postal money orders,** which can be bought and used to pay bills.
- **Domestic and international money transfers.** Canada Post has had a partnership with the money transfer giant MoneyGram, a Dallas, Texas-based money transfer giant for over 10 years. In 2011 this partnership was extended to 6,200 postal outlets.[194] (Unfortunately MoneyGram has a troubled recent history. It admitted aiding in wire fraud and failing to maintain an effective money laundering program. It was forced to establish a $100-million compensation fund for victims in November 2012.)[195]
- **Bill payment and financial transaction and payment notices.** Canada Post through its on-line Internet epost system opened 800,000 new accounts in 2012 for a total of 8.2 million accounts. So far, 100 companies have signed on to allow customers to pay bills on-line. The federal government is trying to encourage pension recipients to switch to epost instead of mail to receive notices.[196]
- **Prepaid Visa cards.** Canada Post has a prepaid reloadable Visa card in a partnership with Citizen's Bank, a subsidiary of VanCity Credit Union.

A first step for a new postal financial services division would be to review these services and look at expanding them. For example:

- **Postal money orders** could also be delivered on cards and telephones that would be loaded and unloaded with cash, and become a means of transmitting money electronically.
- **Money transfers.** Is the troubled MoneyGram the company that Canada Post should be working with? There are other choices. For example, the UPU

has its own electronic money transfer system, used by more than 60 countries, which should be considered.[197]

- **Bill payments.** Bills could also be paid at post office outlets, not just on-line.
- **Prepaid Visa cards.** Regular Visa cards and prepaid debit cards could also be offered.

Brand New Services

A first wave of new services could consist of:

- **Access by all banks and credit union customers to their accounts to deposit or withdraw cash, as is the case in the UK.** There is no good reason that existing customers of banks and credit unions could not access their accounts at a local post office. This should be based on free access for clients of any bank or credit union.
- **Chequing and savings accounts such as low-fee chequing accounts.** The kind of accounts offered by the UK Post Office show that a new financial service could offer very competitive accounts with lower fees.
- **Other savings products such as government bonds (both federal and provincial bonds, according the location in each province).** Federal government bonds (hopefully resuscitated) and those of the various provinces could be sold through the post office as an easy way of starting a major savings program. The Banque Postale and the BancoPosta have based their operations on delivering the core government savings plans.
- **Low-interest credit cards.** Instead of starting out at the highest rates (20% to 30%), cards at the low end of the bank rates (around 12%) could be offered.
- **Prepaid debit cards (reloadable ones such as are offered in Italy).** A reloadable debit card, which could be used via mobile phones and recharged at any post office or even corner store, could be introduced.

In the future, services could be extended to:

- **Mortgages.** These could be offered in partnership with existing banks and credit unions and CMHC.
- **Small-business loans and agricultural loans.** These could be offered through existing federal financial services such as BDC and Farm Credit Canada or in partnership with existing institutions.
- **Insurance products.** Insurance has been a very successful product for post office outlets in Italy and France — especially in many rural and northern areas where no outlets exist to sell insurance products.
- **Mutual funds and stocks.** Given that Canada's banks, as the CBC's *Marketplace* recently reported, charge some of the highest mutual fund fees, Canada Post financial services could offer

low-cost rates on mutual funds and stock trades.

Special New Products for Low-Income and Aboriginal Peoples

Canada Post financial services should offer new competitive products to all Canadians, but they could also make sure that there were special services offered to low-income and Aboriginal Canadians, similar to services offered by both the French and New Zealand post office financial systems.

These could include:

- New systems for establishing the identity of clients when opening an account or getting a loan or other product. One of the major criticisms revealed in the study and in focus groups undertaken by Dr. Paul Bowles is that low-income people do not always have the two or three pieces of ID required to open an account in a bank or credit union, while Money Marts simply take fingerprints.[198]
- Simpler processes for opening up accounts and securing products could be assured in new services.
- Rent-to-own products and joint mortgages (i.e., several people contributing the income necessary for a mortgage), such as Kiwibank has introduced for low-income people.
- A mortgage product for Aboriginal people — particularly those on reserve — based on the home, not on the communally-owned land, and similar to that offered in New Zealand. This could be an excellent new product, if designed with First Nations communities.

Special Services for NGOs and Social Economy Organizations

The Banque Postale in France has become a banker for NGOs, social economy and mutual organizations in fields such as social housing. While for many years it looked as though Citizen's Bank would take on this role, its retreat from the sector meant that once again there is no bank specializing in the needs of this kind of business. This is a role that could link new financial services to communities across the country.

How Could Financial Services Be Delivered?

Canada Post Corporation could examine the optimum method of delivering these services. This could be done by establishing a task force of experts from the financial and postal services to examine how they are delivered in other jurisdictions, the best method for Canada Post (in terms of profit and sales) and the best method for users of these services.

Who Should Own the Services?

There are several possibilities:

- Create a non-chartered bank — a Canada Post-owned subsidiary — to deliver financial services. This is the route taken in Italy;

- Create a chartered bank wholly owned by Canada Post. This is the route taken by France, Switzerland and New Zealand;

- Create a bank to deliver some of the services and partner with banks and others to deliver the rest. This is the route taken by Switzerland.

- Create a national credit union or mutual to deliver the financial services in partnership with Canada Post. A national credit union is one such possibility, as it would allow for widespread ownership by Canada Post employees as well as the public;

- Partner directly with one or more financial institutions to deliver the services. This is the route taken in the UK.

What Mix of Financial Services Should Be Offered? Who Should Deliver Them?

Canada Post already has partnerships with a number of different institutions that could be approached to assist with these services. Once the first question is answered, the second one could be examined and the experience of other countries taken into account.

All potential partnerships, if that is a route taken, should be determined by open tender on delivering a service for a specific period of time. With its 6,400 outlets, which often serve populations with no competition in financial services and sometimes no services at all, Canada Post would undoubtedly be courted by many financial institutions anxious to supply services. There is also no reason to necessarily have all services provided by the same stakeholder or stakeholders across the country.

Whatever the ownership mechanisms, some services could be completely owned by Canada Post and others delivered by a partnership with existing credit unions or banks. Partnerships could be made nationally or developed on a regional basis. This would also allow Canada Post to partner with regionally-based credit unions and caisses populaires in different provinces.

The question of delivery has become easier with the uptake in Internet and mobile phone technology. For example, the UK Post Office Ltd. delivers its services with a core of 300 financial specialists as well as trained Post Office staff for 11,500 outlets. Internet and telephone technology allow people in remote areas to connect with financial specialists.

Why We Recommend Moving Forward on This Issue

In this study we have tried to show that:

- Canada's financial and banking system is not providing competitive services to Canadians nor adequate service to many of the under- or unbanked.
- Canada's postal system has a long history of delivering financial services. It already delivers some products and could develop a full banking system.
- Postal banking systems are growing around the world and are prominent in most of the developed countries and have shown themselves able to provide the income needed to preserve the postal system as traditional letter volumes decline.
- The study of the postal banking systems in the five developed countries we have chosen has shown that there are many ways of creating a successful system. We can use the experience of these countries to create our own model in Canada.
- Canada does not need to hold more discussions on whether financial services for Canada Post are a good idea. That answer we hope is clear from this paper, and other studies cited, as well as from the comments of past Canada Post presidents and experts around the world. Rather, the federal government and Canada Post should immediately proceed to a new stage of setting up a task force to decide how to deliver new financial services and what new products to deliver first.

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