Why Postal Banking Isn't Likely to Deliver Better Payments for the Underbanked

25 May 2016 By: Mark Schwanhausser

Community activists and others gathered this month in Harlem to call for transforming local post offices into banking providers as a means to serve the underbanked and slow the massive losses at the U.S. Postal Service. The need for better financial services for the underbanked is real, especially in lower-income ZIP codes that have become "bank deserts." Unfortunately, there's a wishful undertone that ignores the march of technology, much like you hear when the local newspaper withers or the neighborhood five-and-dime shuts its doors.

"There is no reason," one of the speakers at the Harlem gathering said, that the postal service "can't be retooled for the Internet Age."

Except for the reality that it's a bit archaic to speak of the "Internet Age" – or to expect this particular institution to leap effectively and profitably into an era of mobile-first financial services.

It's easy to see why politicians such as Sen. Bernie Sanders, D-Vermont, and Sen. Elizabeth Warren, D-Mass., look to the Postal Service as part of the answer for the underbanked. The USPS has a broad branch system with nearly 32,000 offices. It's trusted. It serves a social need. And it already provides financial services, notably money orders and bill payments. And few would argue that the underbanked deserve financial services delivered in clean, well-lit places rather than from dubious payday lenders and non-bank services.

Javelin research has underscored the challenge that the underbanked face simply to address the chore of paying bills. Far more than most Americans, they gravitate to offline bill-payment channels and pay with cash, in person, by mail, and at call centers. There is a fundamental need to enable the underbanked to make digital payments – to save time, to save money, to make their financial lives safer, to put them in position to gradually achieve financial well-being.

In an April report, the postal service's Inspector General suggested that money orders were part of the solution, for business reasons that include boosting foot traffic, high profit margins, and the float between the time a money order is issued and cashed. Moreover, customers often would buy stamps to mail many of those money orders.

What's missing from that list is how this would give the underbanked access to 21st-century digital financial services – which is what consumers not only want and deserve, but also what is critical if the postal service is to succeed as a banking provider. For starters, the Inspector General recommends that the postal service do a better job marketing money order sales. Last year, the service sold 93 million postal orders – down from a peak of 233 million in 2000. That's a tough trend to reverse.

One recommendation is that the service should do a better marketing money orders through the service's website and mobile app, which, ironically, issue paper money orders and are delivered by truck and on foot. Another irony: This report advises the service to introduce a full-electronic money order as other nations have done, yet its report on modernizing doesn't even mention services such as PayPal, Venmo and SquareCash.
How can you talk about delivering future-sighted services when you don't even acknowledge today's rivals and realities? This institution isn't demonstrating that it is technologically foresighted or nimble enough to provide the digital banking services that the underbanked deserve.

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