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Saving at the Post Office, While Saving the Post Office

According to a 2009 FDIC survey, about one in four U.S. households are unbanked or underbanked. Without access to conventional financial services, people turn to an alternative banking market of bill pay, prepaid debit cards, and check cashing services, as well as payday loans. The unbanked pay excessive fees for basic financial services, are susceptible to high-cost predatory lenders, and have trouble buying a home and other assets because they have little or no credit history.

The now-defunct U.S. Postal Savings System was set up in 1911 to get money out of hiding, attract the savings of immigrants accustomed to saving at post offices in their native countries, provide safe depositories for people who had lost confidence in private banks, and furnish depositories that had longer hours and were more convenient for working people than private banks provided. The minimum deposit was $1 and the maximum was $2,500. The postal system paid two percent interest on deposits annually. It issued U.S. Postal Savings Bonds in various denominations that paid annual interest, as well as Postal Savings Certificates and domestic money orders. Savings in the system spurted to $1.2 billion during the 1930s and jumped again during World War II, peaking in 1947 at almost $3.4 billion.

The U.S. Postal Savings System was shut down in 1967, not because it was inefficient but because it became unnecessary after the profitability of catering to the unbanked and underbanked became apparent to the private financial sector. Private banks then captured the market, raising their interest rates and offering the same governmental guarantees that the postal savings system had.

In 2008, when the FDIC studied banks' initiatives to bank the unbanked it found that many of these initiatives were lacking. For instance, although "73% of banks were aware that significant un/underbanked populations were in their service areas, less than 18% of banks identified expanding services to un/underbanked individuals as a priority in their business strategy."

Given banks' unresponsiveness to the banking needs of the unbanked and underbanked communities, reinstating the postal banking system could be a win-win situation, providing jobs and income for the post office along with safe and inexpensive banking services for underserviced populations. Other countries have already begun expanding and/or adapting their existing postal systems to provide such banking services.

In China, for example, the People's Bank of China (the central bank) helped to reestablish China's Postal Savings Bureau in 1986 after a 34-year lapse. Savings deposits flooded in, showing an extraordinary growth rate of over 50% annually in the first half of the 1990s and over 24% annually in the second half. By 1998, postal savings accounted for 47% of China Post's operating revenues; and 80% of China's post offices provided postal savings services. Importantly, the Postal Savings Bureau has been able to leverage income and profits from the private sector to provide credit to finance local development. In 2007, the Postal Savings Bank of China was separated from the Postal Savings Bureau as a state-owned limited company, which continues to provide postal banking services.

Japan has also leveraged its postal system to provide banking services such that, by 2007, Japan Post was the largest holder of personal savings in the world, boasting combined assets for its savings bank and insurance arms of more than ¥380 trillion ($3.2 trillion). It was also the largest employer in Japan. As in China, Japan Post uses income from the private sector to fund the government at low interest rates.

Brazil instituted a postal banking system in 2002 based on a public/private model between the national postal service (ECT) and the Bank of Brazil. ECT (also known as Correios) is one of the largest state-owned companies in Latin America, with an international service network reaching more than 220 countries worldwide.

In Switzerland, postal financial services are by far the most profitable activity of Swiss Post, which suffers heavy losses from its parcel delivery and only marginal profits from letter delivery operations.

Most recently countries such as Russia and India are exploring full-fledged lending services through their post offices. India's Post Office Savings Bank (POSB) is India's largest banking institution and its oldest, having been established in the latter half of the 19th century following the success of the postal savings bank system in England, the first nation to offer such an arrangement in 1861. Operated by the government of India, it provides small savings banking and financial services, but is now seeking to expand these services by obtaining a license for the creation of a full-fledged bank that would offer full lending and investing services. Similarly, Russia is also seeking to expand its post office services. The head of the highly successful state-owned Sberbank has stepped down to take on the task of revitalizing the Russian post office and create a post office bank that would operate in the Russian Post's 40,000 local post offices. The post office will function as a banking institution and compete on equal footing not only with private banks.

On July 27, 2012, the National Association of Letter Carriers adopted a resolution at its National Convention in Minneapolis to investigate establishing a postal banking system. Bringing back postal banking could be a win-win-win, providing income for the post office, safe and inexpensive depository and checking services for the underbanked, and a reliable source of public funding for the government.

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