

The Role of Postal Networks in Expanding Access to Financial Services

Worldwide Landscape of Postal Financial Services

Latin America and the Caribbean Region

**The World Bank Group
Global Information and Communication Technology**

**Postbank Advisory, ING Bank
Postal Policy**



Authors' Note

This section discusses the landscape of postal networks in the Latin American and Caribbean Region and their current role of postal networks in providing access to financial services. The landscape is intended to serve as a basis to assess the potential role to expand access to financial services.

For some aspects and some countries, data was not available or was very limited via the desk research (completed in 2004) employed for this regional study.

While this Latin America and Caribbean landscape can stand alone, it is an integral part of this large study of the potential of postal networks to coordinate with financial service providers in 5 regions (*Africa, Asia, Eastern Europe and Central Asia, Latin America and the Caribbean, and the Middle East and Northern Africa*) and 7 countries (*Egypt, Kazakhstan, Namibia, Romania, Sri Lanka, Uganda, and Vietnam*).

Glossary of Abbreviations and Acronyms

BRL	Brazilian real
LAC	Latin American and Caribbean region
MIS	management information system
UPU IFS	Universal Postal Union's International Finance System
USD	United States dollar
USPS	United States Postal Service
WSBI	World Savings Banks Institute

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Summary

Postal networks in the Latin American and Caribbean region (LAC) include nearly 37,000 post offices. Unlike Europe, Asia, or Africa, in nearly all of the Latin American and Caribbean countries, these post office networks lack a tradition of providing payments and savings services. The role of the postal networks in providing access to financial services is more incidental than an actual feature. Research indicates that currently 1.5 million people in Brazil and the Antilles have postal savings accounts with a total balance of more than USD 200 million. This is mainly due to the Banco Postal program, which also has provided more than 150,000 microcredit agreements.

Postal networks in the LAC region do provide payment services. Reportedly, about 7 million money transfer operations are performed through postal networks, including international remittances. The market share is small for both domestic and international remittances, and in general is far below 1 percent. It should be considered a marginal feature. Argentina, Brazil, Chile, and Uruguay have somewhat more advanced payment operations.

The postal networks in the LAC region differ from other continents in delivery of financial services at post offices. Public postal operators in this region were among the first in the world to face fierce competition from private and foreign entrants. As a result, diverse types of postal operators have established themselves in most of the LAC countries and have captured significant market share in all postal markets. In some countries, the public postal operator has been able to retain only a significant market share in domestic letter mail.

The postal markets in LAC region have, to a large extent, been de facto liberalized and deregulated, even though the public postal operator operates de jure as a broadly defined postal monopoly. Weak financial results, poor service quality, and the shift in the market caused several governments in the LAC region to react by addressing reform of the postal sector and the public postal operator. Various approaches have been pursued, ranging from outright privatization (Argentina), to outsourced management (Trinidad and Tobago, Nicaragua, Antilles), to incorporation and commercialization (Costa Rica, Uruguay, Chile) and improvement of service quality (Mexico).

By and large, introducing financial services in post offices appears to occur as a second or third priority. Public postal operators in the LAC region are concerned with restoring public trust by improving the quality of mail service, ensuring economic viability by developing their core business lines, and gaining commercial freedom to effectively compete with the private sector. In financial service provision, the public postal operators tend to prioritize the opportunities in international remittances. Initiatives range from signing agency agreements with Western Union to developing alternative postal applications (which to date have lacked significant scale and are not connected to service providers in the United States, the main origin of remittances to the LAC region).

There are several, severe obstacles (historical, legal, financial) to overcome to enable postal networks to provide financial services in the LAC region. It is useful to assess in more detail (a) applying lessons from Brazilian postal bank to other LAC countries (i.e., outsourcing key functions in the financial services operation to a competent private sector bank), and (b) capturing—through international cooperation—a stronger role in remittances as a trigger or lead product for a broader spectrum of financial services.

The rationale for doing assessments is to provide easier and broader access to financial services. "Yellow Book" reports on payment systems in the LAC region indicate that up to 75 percent of the population does not have a transferable deposit account (or debit card) with the payments system. The number of bank branches and sub-branches is approximately equal to the number of post offices. Post offices are more evenly dispersed throughout the countries, and found in locations where no banking facilities are available, and could be repositioned to compliment existing formal financial sector infrastructure.

1—Introduction

The postal networks in the Latin American and Caribbean region comprise **36,835 post offices** (about 5 percent of the worldwide postal network). Argentina, Uruguay, and Mexico have 80 percent (29,000) of these postal networks. The public postal networks are dense, with 1 public post office per 13,000 inhabitants. In addition to the public post offices, there are large networks of private postal operators and retail franchise networks.

Key Data on Postal Networks and Access to Financial Services	
Population	400 million
Gross national income	USD 317 billion
Territory (in square kilometer 000s)	13,206
Post offices	36,835
Staff	67,000
Mail items	18 billion
Postal financial transactions volume	6.5 million
Postal financial transactions (value)	USD 205 million
Postal giro and savings accounts	1.5 million
Postal financial assets	USD 200 million

Sources: Research by UPU, WSBI, World Bank, ING

A significant difference between Latin America and other continents is that mail markets have been de facto liberalized and deregulated for 15 years. State postal operators have in some cases a significant or dominant market share in domestic mail, but in all other segments (courier, express, parcels, direct mail), their share is in general less than 20 percent or insignificant. The main exception is Brazil where the Correios hold a strong market position in all segments. Per capita mail volumes average around 30 items per year, although some countries show only one 1 to 2 items per capita per year, and others (Brazil, Argentina) have much higher numbers. (These data relate to the public postal operator only, not to the postal sector.) Other private postal operators in several countries in the LAC region process two to three times the mail volume of the state mail.

Several public postal operators incur chronic losses and depend on state budget intervention to continue their services. In most other cases, postal operators break even, but have no budget for major improvements or innovations in their mail service. Revenues from postal mail services for the state-owned postal operator have tended to decline due to increased global competition in international mail, express, parcels, and logistics, as well as from substitution by e-mail, fax, and other new technologies.

Governments in the Latin American and Caribbean region are therefore increasingly rethinking the rationale of maintaining and operating public postal networks. In some cases, the public postal operator has been marginalized, mainly providing the universal mail service obligation but at poor quality. Several public postal operators and governments in the region have initiated postal reform programs, varying from privatization, to management contracts, to commercialization to quality improvement programs. These programs have not identified developing financial services in the post offices as a key priority.

The Role of Latin American and Caribbean Postal Networks in Providing Access to Financial Services	
Payment systems	<ul style="list-style-type: none"> • More than 1.5 million inhabitants (mostly low-income and rural) of Brazil and the Antilles use account-based services. • The systems are cash-based, playing small but valuable roles in money transfers and bill collection with varying degrees of success, particularly if new technology is available (Uruguay, Argentina, and Brazil). In general, they have very low volumes, though. • They do not participate in any of the programs to develop payments systems. In most countries, post offices are by law confined to providing postal money orders only. • Payments systems in LAC in general have advanced technological features, but are accessible or affordable to less than 25% of the population. <p><i>Access to modern cashless payment systems in general is not available, although there are a few exceptions demonstrating success. Roll-out in other countries will require substantial regulatory, institutional, and technical change.</i></p>
International remittances	<ul style="list-style-type: none"> • The product range of remittances has been somewhat expanded through experiments and upgrades, in particular with Universal Postal Union's International Financial Systems, but the actual role is still insignificant. The estimated market share is below 1%. Some postal networks have agreements with Western Union (Argentina, Chile) and Eurogiro (Brazil). • Although the United States is the main country of origin of remittances going to the LAC region, the US Postal Service (USPS) has been reluctant to develop remittance agreements or connections with their postal counterparts, which poses an additional obstacle to providing access. • In view of economic significance of remittances for LAC countries, key opportunities are being missed. <p><i>Access to international remittance services at post offices is very limited, and is not positioned in a "remittances for development" concept. Access would require considerable service and quality improvements and participation of USPS or an alternative network in the United States.</i></p>
Savings	<ul style="list-style-type: none"> • With the exception of Brazil and the Antilles, savings options are absent. • Regulatory frameworks in general prohibit post offices from taking deposits as one of its services or as an agent for a licensed bank. <p><i>Access to deposits or savings options are currently limited to approximately 1.5 million savers in Brazil and the Antilles. In general, post offices are not allowed to take deposits.</i></p>
Insurance and pensions	<ul style="list-style-type: none"> • Insurance and pension options only exist on an experimental basis in Aruba and are under preparation in Brazil. • Opportunities to develop these have not been captured. <p><i>Access to insurance and pension products at post offices is non-existent, but there are some promising experiments. Access would require regulatory</i></p>

	<i>changes and institutional reforms.</i>
Credit	<p>Credit is virtually non-existent through post offices with the exception of Brazil, which is rapidly developing as a leader in microfinance. There is some small-scale experience in Argentina and the Antilles. In Mexico, Bansefi uses some post offices for microfinance.</p> <p><i>Access to credit at post offices is virtually non-existent.</i></p>
Economic significance of the postal networks	<i>The economic significance is marginal, on average 2% of the revenues of postal operators in the LAC region stems from financial services. There is some diversification of products, and on average 20% of revenues stem from other non-postal services.</i>
Overall	<p><i>The role of Latin American and Caribbean postal networks in providing financial services is marginal, both in terms of access to the services and the economic viability of the postal operators. Lack of tradition, prohibitive legal frameworks, and poor service contribute to this situation.</i></p> <p><i>The recent Banco Postal initiative in Brazil demonstrates that the postal network can fill a valuable complementary function and provide basic financial services to previously unbanked communities.</i></p> <p><i>Institutional weaknesses of the postal operators (from a broad range of issues, including regulatory environment, governance, management, market and business development, management information systems (MIS), and technology) still need to be addressed so that postal networks can provide sound and sustainable access to financial services. Postal operators need public trust, which has been undermined in several LAC countries as a result of very poor service coupled with weak financial and market performances. In the deregulated postal markets, options for private-sector participation need to focus on assessing and engineering new approaches.</i></p>

2—The Landscape of Latin American and Caribbean Postal Networks

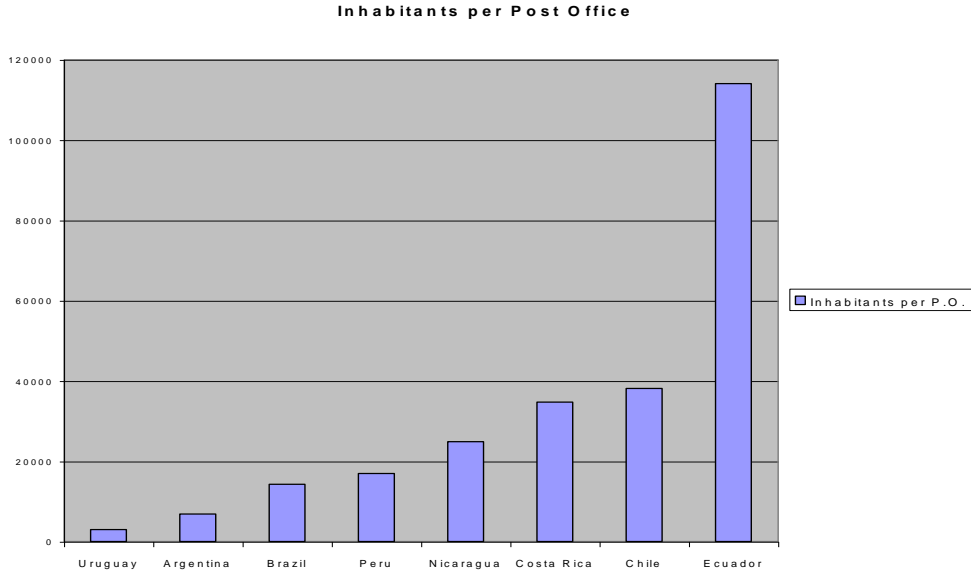
Post offices in the Latin American and Caribbean region have existed for more than three centuries, established by former Spanish, Portuguese, British, French, and Dutch colonial powers. The nearly 37,000 post offices in the Latin American and Caribbean region, run by public postal operators, do not in most cases include postal agencies or other services points. These arrangements differ from country to country, as do accounting and reporting practices.

In Latin America, private postal operators also manage large postal networks as collection and distribution points for mail and parcels, both for businesses and consumers. In addition to these networks, the region features retail franchise post offices, such as Mail Boxes Etc.,[®] that provide an array of private postal services. Data on these networks are not consistently available.

The figures in the charts below show dense coverage of post offices per inhabitant, although it is short of the ratio recommended by the UPU a gap of 1 post office per 6,000 inhabitants. Nevertheless, the postal networks in the Latin American and Caribbean region are much larger than other chains or banking networks. In fact, it is estimated that there are about as many post offices as all bank sub-branches. Postal networks in the

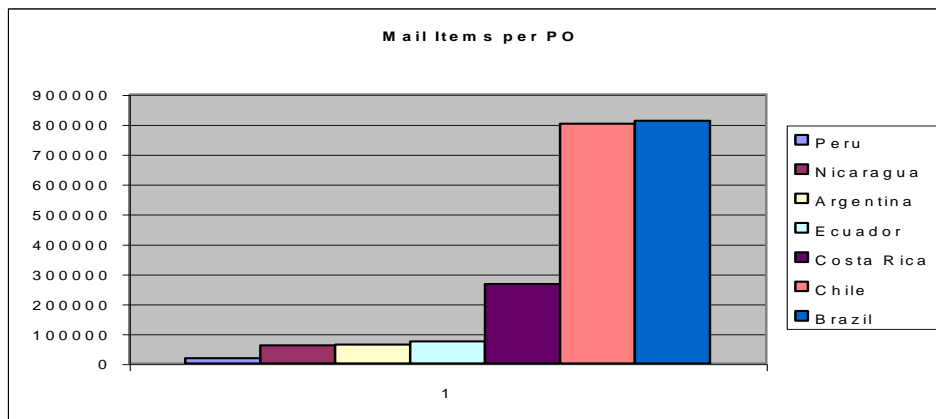
Caribbean and Central America tend to cover small areas, ranging between 50 and 500 square kilometers, while post offices in Brazil and Chile much cover larger areas, up to 3,400 square kilometers.

Which Mail Carrier Rang the Bell Today?



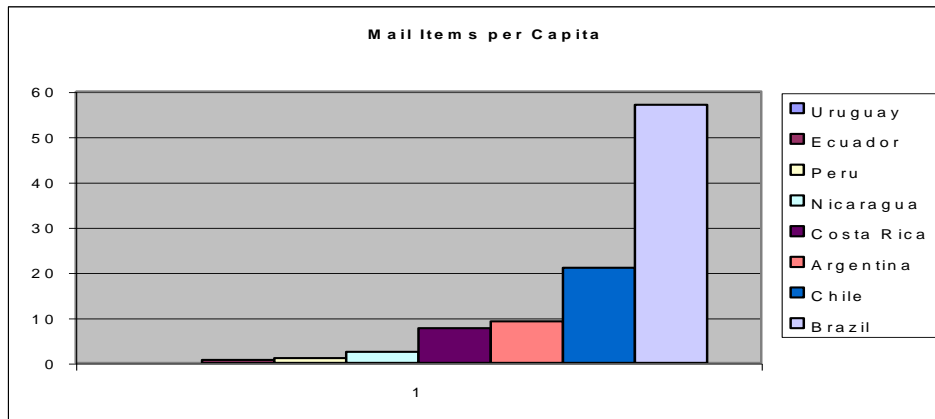
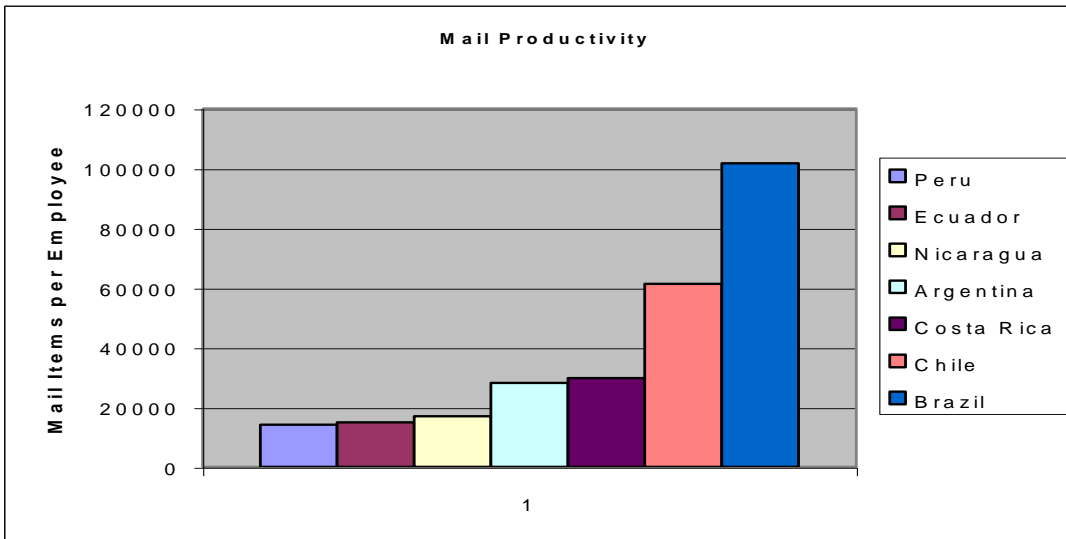
A cross-country comparison of mail items per capita (delivered by the public postal operator only) shows broad differences between Latin American and Caribbean countries. In Brazil, mail items per capita are nearly 60 per year, while in Ecuador, Nicaragua, or Peru, it is only 1 or 2 items per year. Total mail items per capita, however, are considerably higher in some of the LAC countries where companies and individual households receive mail from various operators, particularly in urban areas. In some cases, cost-efficient distribution methods for distributing bulky business-to-consumer mail flows (utility bills, bank account statement, etc.) are used, such as convincing employers to distribute bulk staff mail through the company’s internal mail system. This lets the postal system primarily serve the bulk letter mail flows between the public sector and households.

The average number of mail items per post office differs widely, from more than 3,000 items per day in Brazil and Chile to approximately 250 items per day in Nicaragua and Ecuador. Productivity of each postal staff



member also varies, with Brazil processing more than 100,000 mail items per year per staff member (higher than some industrialized countries), and with Ecuador, Nicaragua, and Peru processing a volume of around 15,000 items per year per staff member (i.e., approximately 60 mail items per working day).

In most Latin America and Caribbean countries, mail services are as the core business for post offices. Diversification into other services has been more limited than on other continents. On average 78 percent of the revenues stem from mail and parcel services, only 2 percent from financial services, and 20 percent from other retail, communication and financial services (Internet access; sales of post cards, telephone cards, and lottery tickets, Western Union agency services) and state budget intervention. As in other countries worldwide, revenues from mail services alone in Latin America and the Caribbean region will not sustain the public postal networks.



Revenue Flows and Financial Results of Public Postal Operators (2001)

Administration	Percent of Revenues from Letter Mail	Percent of Revenues from Parcels and Logistics	Percent of Revenues from Financial Services	Percent of Income from Other Services and Sources
Brazil	44.0	23.0	5.0	28.0
Mexico	95.9	1.1	2.8	0.2
Colombia	64.8	24.2	7.8	3.1
Argentina	89.0	7.0	1.0	3.0
Venezuela	75.1	0.0	0.0	24.9
Chile	90.6	3.8	0.0	5.6
Ecuador	95.1	0.1	0.0	4.7
Dominican Republic	42.0	5.0	3.0	50.0
Bolivia	21.4	2.9	4.9	70.8
El Salvador	70.0	10.0	0.0	20.0
Paraguay	61.0	11.0	0.0	28.0
Uruguay	96.0	1.0	1.0	2.0
Costa Rica	78.0	2.0	0.0	20.0
Trinidad & Tobago	73.0	4.0	2.0	21.0

According to UPU research data, the postal mail market in the LAC region is expected to show stable, slightly positive development. Research by the American Direct Mail Association predicts a 30-percent growth in direct mail over the next five years. This could be an exciting growth opportunity, but with the fierce private and international competition in this field, it is optimistic to assume that public postal operators will capture most of the growth in this segment.

Diversifying and utilizing the postal network to deliver financial services might be relevant to postal operators and their owners in the LAC region. In addition, several governments (e.g., Costa Rica, Brazil) and postal operators are wondering to what extent postal networks can play a stronger role in providing access to Internet and other communication services.

Postal Networks and Latin American and Caribbean Postal Reform

Latin American and Caribbean postal operators were among the first in the world to face dramatic changes in their business environment where they once operated as a monopoly. In nearly all LAC countries, the postal sector has been *de facto* liberalized and deregulated. Few countries, however, have fully adjusted their legal frameworks to the *de facto* situation. On one hand, international businesses, such as UPS, FedEx and DHL, have grabbed substantial market share in international and local business-to-business mail, while local and regional private entrepreneurs have filled in the gaps in the domestic courier, express, mail, and parcel segments, particularly in urban areas. As figures from Chile, Argentina, and Mexico show, the sector show a broad diversity of private postal operators, including the large global operators (UPS, FedEx, DHL, TNT), the strong nationwide and regional operators (Exel, OCA), and many small-to-micro operators serving one city only.

The *de facto* liberalization of the postal sector was mostly a response to the poor reputation and offerings of the public postal operators, often coupled with low quality of mail service that did not match the demands and requirements of the more sophisticated consumers (private sector and international business and urban individuals). A recent report indicated that 80 percent of international mail arriving in Ecuador does not reach

its destination within a month; other countries (Mexico, Colombia, Bolivia, Paraguay, and Venezuela for example) show substandard mail quality, which is the reason that private and foreign-owned businesses to engage private postal operators.


This combination of a de facto deregulated market, poor quality performance, and negative financial results triggered postal sector reform across the region, as well as the concept of disposing of the public postal operator. Privatization through long-term concession agreements was implemented in Argentina by 2002. Bolivia and Ecuador attempted to privatize the postal operator in similar fashion, but no change materialized. In Chile, Costa Rica, Uruguay, Mexico and Brazil different courses to postal reform were taken. Postal reform in these countries has some common denominators:


- Improvement in quality of service
- Transformation of the state postal service from a government department or agency into a corporate structure
- Accountable management and commercialization and diversification of services
- Preparation of a legal framework to regulate the various operators in the postal sector

In several cases, the postal reform turned into a lengthy, protracted process (more than five years in Brazil, Chile, and Mexico). In Nicaragua, the Antilles, and Trinidad and Tobago, private sector participation in the public postal service was achieved by outsourcing company management to a private operator. The experiences with these approaches appear to have effectively upgraded the quality of mail services and help instill modern and private sector management and accounting practices. None of these countries seized on financial service delivery through the post offices feature as a key element, except for Brazil. Also given the lack of tradition, developing financial services has not been a high priority. To date, financial services are seen as an "added-value" service that can generate some additional business.

3—Latin America and Caribbean Country Profiles and Overviews

Country-by-Country Profiles

Argentina	
<p>Institutional Framework</p> 	<p>The Argentine public postal operator is Correo Argentino S.A. The Correo privatization was a landmark in the postal industry and the first privatization in a large emerging market. (The consortium was made up of Sideco, 69%; Banco Galicia, 12%; International Finance Corporation, 5%; and staff, 14%.) It operated as a privately-owned company under a 30-year concession agreement with the government. The concession included the universal service obligation, an obligation to upgrade services and productivity, and payment of royalties to the government. The on-going business and utilization of the postal infrastructure were provided.</p> <p>Correo operated until the crisis of 2002 when it defaulted. With evidence of its inability to pay the concession amounts, the government cancelled the agreement and put Correo temporarily under state control. The plan was to re-privatize Correo, possibly with a new model, but it took more time than expected.</p> <p>Under the regulations of the Banco Central de la Republica Argentina, Correo was able to continue its money transfer and collection function, but it was not allowed to provide deposit taking services over the postal counters. For international remittances and local money transfers, Correo concluded a joint-venture agreement with First Data Corp/ Western Union to implement its payments processing technology.</p> <p>The National Committee for Communications is Argentina's regulator for the postal sector. It oversees the postal sector and licenses private postal operators. There are more than 300 private postal operators in Argentina.</p>
<p>Postal network</p>	<p>The postal network in Argentina comprises 5,300 post offices. About 2,000 of the</p>

	<p>post offices are the property of the state and rendered for use to the concessionaire; the other post offices are operated on a franchise or agency basis. The network has been reduced to about 500 offices since 1997.</p> <p>The network of 94 banks comprises 4,325 bank branches, of which 48% are situated in the metropolitan area of greater Buenos Aires. The banks serve about 7.5 million individuals in a population of 38 million. This suggests that the postal network (with 4,100 outlets outside Buenos Aires) could help provide more access to the financial system.</p>
Postal performance	<p>Over past years, Correo consistently upgraded and expanded the quality and volume of services. Correo had a market share of less than 25% in the total national postal market, with 37% in the mail market. Correo had access to large amounts of money (>USD 300 million) to inject into new technology and modernization. IFC, IDB, Citibank, Banco Galicia, and Banco Rio have been among the most prominent lenders. Employment was reduced from more than 18,000 in 1997 to 13,000 in 2003.</p>
Market position	<p>Correo's financial products are limited to money transfers services. It offers a widely-used bill collection service and fast postal money orders. This operation was developed with First Data Corporation. Although the service is mentioned in the "Yellow Book" as valuable, it concerns less than 2% of the total payments volume. For international remittances (in cash, person-to-person), the market share is believed to be more significant because Correo is the main agent of Western Union.</p>
Other comments	<p>The re-privatization of Correo underway does not feature an explicit initiative to utilize the postal network for financial service provision. The opportunity has been identified, though, by some of the potential bidders, but will nevertheless require a solution to the regulatory framework that principally prohibits deposit taking services at post offices.</p>
Brazil	
<p>Institutional framework</p> 	<p>The Brazilian public postal operator is ECT (Empresa de Correios e Telegrafos), operating under the trade name Correios. It is a state enterprise with some managerial autonomy from the Ministry of Communications. A 2002 revised postal law envisaged the incorporation of Correios, with more commercial freedom and a regulatory framework for the other (private) operators in the postal market. It is not clear if this proposed law will be adopted.</p> <p>Traditionally, ECT provided a limited range of financial services (cash-based money transfers and collection service), particularly in areas where banks do not provide such services (even though these operations were not compliant with the instructions of the Central Bank). The volume of operations was small, below 1 million operations per year. The Brazilian government considered allowing the postal network to provide savings and basic financial services. After a pilot program, Banco Postal began as a partnership between ECT and Bradesco Bank.</p> <p>The contract is a concession where ECT grants the selected bank to operate payments and savings services exclusively through the post offices. Under this partnership, ECT had a broad scope of tasks for front office and mid-office operations, but the overall responsibility for the banking operation was with Bradesco, which re-invests deposits as part of its own asset and liability management. Bradesco reports to the Banco Central do Brasil regarding the Banco Postal program.</p> <p>To enable participation of post offices in deposit-taking operations, the National Monetary Council approved the role of the postal network as a financial service intermediary. Also, other networks, such as lottery agents, were approved to become a bank agent.</p>
Postal network	<p>The postal network in Brazil comprises 12,200 post offices. About 5,500 of these post offices are property of ECT, and nearly 7,000 are operated on a franchise or agency basis. Post offices are strongly represented in the poor and rural areas of</p>

	<p>north and north-east Brazil, where chances of profitably privately running a post office are slim. Post office franchisers in Brazil usually do not operate other retail services, but usually offer added-value mail services (such as preparing direct mail campaigns, addressing mail, filling enveloping, sorting, or direct mail fulfillment) and mail account management.</p> <p>The postal network is smaller than the 17,700 bank branches. These branches are heavily concentrated in the greater metropolitan area of Sao Paulo and Rio de Janeiro. In addition, there are 22,400 ATMs, only accessible by existing bank clients, and 7,000 self-service stations, and 12,000 other agents.</p>
Postal performance	<p>Over the past years, Correios has been consistently voted the most reliable brand in Brazil. It scores 98 on a scale of 100, whereas banks score 42. ECT provides a high level of services and is profitable. Unlike many other postal operators, ECT can borrow money from banks in order to finance its modernization projects.</p> <p>ECT employs 83,000 staff, of which approximately 250 are involved in the Banco Postal program full time, while about 15,000 provide front office/ financial services over the counter. Bradesco Bank also has considerable staff working in the Banco Postal program for marketing, promotion, and data base management.</p>
Market position	<p>The products offered by the Banco Postal program include payment cards (VISA Electron), payment accounts, and deposit/savings accounts, and for established savers, microfinance from Bradesco. Plans to introduce insurance and mutual funds are underway, but a tender for a "Seguros Postais" partnership has not been launched yet.</p> <p>In absolute figures, the Banco Postal is too young to have significant impact on the market in household deposits. Bradesco's share in the growth of retail deposits boosted it to a leadership position thanks to Banco Postal, which has now more than 1,448 million accounts with BRL 150 average per account (approximately USD 50).</p> <p>Banco Postal's microcredit is a rapidly expanding product, the portfolio of which has jumped from BRL 112 million in March 2003 to BRL 270 million at the end of April 2004. With nearly 50,000 microcredit lines, it has a significant position in the microcredit market, which in 2002 counted about 180,000 microcredit agreements from 30 microcredit institutions.</p>
Other comments	<p>ECT has other initiatives, including providing Internet access at > 2,000 post offices and export trade support to small and medium-size enterprises.</p>
Chile	
Institutional framework	<p>Correos de Chile is charged with the universal postal service obligation. The scope of the monopoly covers domestic and international mail. Correos de Chile is a public enterprise. A proposal to incorporate Correos has been prepared, but not been adopted, and a privatization strategy has not been approved. In practice, Correos de Chile does not exercise a monopoly and operates in a de facto liberalized and deregulated environment. Chile has approximately 300 private postal operators, many of which operate on a local scale only with a small range of services (e.g., parcels only). About 20 companies provide nationwide service and a broad scope of mail, courier, parcel, and other services. These companies have heavily invested in technology and focus on urban business-to-business mail. There is no regulatory body for the postal sector.</p> <p>The Ministry Transport and Telecommunications fixes the tariffs of Correos mail services.</p> <p>Within the de facto deregulated market for mail services, Correos's freedom to diversify into other services is very limited. Correos de Chile offers postal money order services and is a sub-agent for Western Union remittances. It has considered a partnership with Banco del Estado to support continued outreach in rural areas, while the bank would be able to reduce its network. No conclusions have been reached.</p>
Postal network	<p>Correos de Chile operates through 460 post offices and in addition 528 agents, and</p>

	<p>345 pharmacies. This compares to the network of 1280 bank branches in Chile that serve approximately 1.5 million individuals.</p>
Postal performance	<p>Correos de Chile has a market share of 70% in domestic letter mail, but only 4% in the courier market. Through a joint venture with TNT, it has acquired a 32% share in the international express market. Correos de Chile is particularly strong in mass communications (from and to households), but it has only 33% share in the business-to-business market.</p> <p>In 2000 and 2001, Correos recorded severe losses and remains dependent on government tariff policy and subsidies.</p>
Market position	<p>The market position of Correos de Chile in financial services is very small. In the payments market, Correos has a share of less than 0.5 % in the volume of transactions. In international remittances (in the cash person-to-person segment), their position is believed to be better, mainly because of the sub-agency agreement with Western Union.</p> <p>Given the underserved portion of the Chilean population, involving the postal network extended basic financial services to individuals and small enterprises.</p>
Other comments	<p>Per Correos de Chile, the regulatory framework is antiquated, given the actual market situation, and an overhaul of the legal framework is needed to create conditions for Correos' sustainable development. Moreover, Correos reported that it considers the preparation and implementation of a new postal sector policy a high priority to provide clarity about its mission and statute in executing the universal postal service obligation. Further postponement could increase the risk of Correos de Chile becoming a marginalized operator.</p> <p>In the context of repositioning or restructuring the public postal operator, providing basic financial services does not really seem to feature.</p>
Mexico	
Institutional framework	<p>SEPOMEX was established in 1986 as a decentralized public agency to provide universal postal services in Mexico. The regulations set a very broad monopoly for mail services for SEPOMEX. As a state service it reports to the ministry responsible for communications. SEPOMEX was declared bankrupt in 2001 politically paving the way for restructuring and modernizing. A new regulation facilitated a centralized management of SEPOMEX.</p> <p>SEPOMEX operates in a de facto deregulated and liberalized postal sector. Private postal operators (local Estafeta and foreign operators) have strongly established their presence in the business-to-business market segment and the CEP services.</p> <p>SEPOMEX does not provide financial services, with the exception of domestic and international postal money orders. SEPOMEX did not qualify as contract partner for the international money transfers from US Postal Services.</p> <p>Under the BANSEFI program (a rural microsavings and microcredit institution), several hundred post offices were signed as outlets for BANSEFI, with its staff deployed at the post offices.</p>
Postal network	<p>SEPOMEX has a dense network, with 1608 of its own post offices, 8710 permanent post offices staffed with external staff, and 20,000 postal service agents (not full-time). The postal network covers all communities with more than 250 inhabitants.</p> <p>Around 63.2 million Mexicans live in urban or semi-urban area (552 towns have more than 10,000 inhabitants). All 7,311 commercial bank branches are located in these semi-urban areas: 1 bank branch per 8,600 inhabitants. In addition, there are more than 17,000 ATMs in the semi-urban areas.</p> <p>In Mexico, banks have issued 8 million credit cards and 33 million debit cards to</p>

The Latin America and Caribbean Region

	<p>clients in semi-urban areas, meaning that more than 50% of the semi-urban inhabitants has bank cards. The potential added-value of involving the postal system in the urban areas gives access to only 36% of the population (or 35.1 million); those who live in rural areas have very limited access to formal financial services. There are 28,000 communities with more than 250 inhabitants.</p> <p>Three million people live in communities smaller than 250 inhabitants and are not serviced by the post office system.</p> <p>The post office system could be considered an optional network to provide basic, uniform financial services particularly in rural areas and possibly be a network to provide access to the Internet.</p>
Postal performance	<p>SEPOMEX has operated at a deficit for nearly 10 years (based on government cash-flow accounting principles), with increasing costs and declining revenues. In 2002 changes were implemented to a reduce costs, including closing post offices and increasing revenues. A particular point of focus has been the improvement of quality of service of mail. A restructuring plan envisages it would break-even in 2005, although so-called "social" mail would still contribute negatively.</p> <p>Upon concluding the first restructuring phase in 2005, if SEPOMEX restored quality and economic viability. Its management would consider introducing financial services and other services as priority.</p>
Market position	<p>The market position of SEPOMEX is non-existent in financial services. In the payments market, SEPOMEX operates cash transfers (postal money orders), but the share in volume is insignificant, less than 0.1%.</p> <p>Mexico is one of the world's largest markets for international remittances. More than USD 10 billion per annum is sent by Mexican immigrants in the United States. SEPOMEX's extensive postal network does not play a role in remittance services and SEPOMEX's counterpart in the United States, the US Postal Service, chose a commercial bank in Mexico instead of SEPOMEX for its remittance services. SEPOMEX is aware that a critical condition for qualifying for any international payment system is the quality of its service and management system.</p>

Cross-Country Overviews

Product Diversification

Country	Cash Person-to-Person Transfers	Postal Giro Accounts	ATM Cards	Int'l Remittances	Postal Savings	Life Insurance/Pensions	General Insurance	Credit	Mutual Funds
Argentina	4			4					
Brazil	4	4	4	4	4			4	
Chile	4			4					
Costa Rica	4			4					
Mexico	4								
Netherlands Antilles	4	4		4	4	4	4	4	
Nicaragua	4			4					
Peru	4								
Uruguay	4		4	4					

The table shows that the product range has remained very basic and narrow, with the cash payments predominantly present. The majority of the countries also provide international remittances. As discussed the market share position in the payments products are very small, particularly if compared to the size and outreach of the postal network.

The narrow product scope is clearly a legacy of the past. Innovations through new programs have taken place in Brazil that can now be considered the leader in this field amongst public postal operators in the Latin America and Caribbean region.

Innovations in Postal Financial Services

Country	New Projects or Products Launched or In Preparation
Argentina	Pago Facil was launched to settle payments (utility bills) at post offices both in cash and with credit/debit cards. The operation was set up in a joint venture with Western Union/First Data Corporation.
Brazil	The Banco Postal program was launched in 2001 and has introduced deposit accounts, payment cards, microcredit, and international remittances (Eurogiro).
Chile	Intends to expand the range of financial services through a partnership with one of the banks. Talks have been conducted with Banco del Estado, but no conclusion has been reached.
Colombia	Plans to launch electronic remittances with Spain in 2004.
Costa Rica	In its commercialization drive, Correos launched new electronic remittance services with other Central American states and intended to do this with Spain. A partnership agreement has been concluded with Banco de Costa Rica to sell a limited range of financial products, and options and opportunities are being considered to further structure the financial services and expand the portfolio.
Ecuador	Is in the process of establishing electronic remittances with Spain.
Mexico	Will consider financial services as a priority when higher quality has been achieved in basic mail operations.
Netherlands Antilles	Product portfolio has been fully expanded to include payments, savings, and mortgage loans, and insurance in Aruba.
Nicaragua	New electronic remittance services were launched as a pilot with Costa Rica, with plans to further expand to other Central American states and Spain.
Paraguay	Plans to launch electronic remittances with Spain.
Peru	Plans to launch electronic remittances with Spain.
Uruguay	The Correo Banc initiative has been successful in efficient bill collection; deposit accounts and debit cards are not allowed under the current regulations. Correos has considered plans to create a partnership following the Brazilian experience, to launch electronic remittances with Spain.

Postal operators focused on expanding or upgrading their offerings in international remittances. Launching electronic remittances with Spain is useful learning experience to gain practice in the application of new technology; the economic value might be very limited. The main innovation was the Banco Postal program in Brazil, and its success has roused interest from Uruguay and Chile in try similar initiatives.

Regarding institutional aspects of postal financial services in the LAC region, one sees most of the postal operators providing money transfer services as an integrated part of their own operations. The Antilles have a historical structure (post office savings bank) that is a separate entity owned by Netherlands Antilles Posts, Ltd. Only Argentina and Brazil have different structures in their agreements with financial institutions. Argentina has a joint venture charged with the product, network, and operations management (but it does not have the status of a bank), and Brazil has a program under which Correios has licensed a private bank for eight years.

Institutional Aspects of Postal Financial Services

Country	State Ownership	Independent Legal Person	Regulator	Relation to Post Offices	Shared Functions with Posts
Argentina	0%	JV Pago facil	CB	Internal	M + Front Office
Brazil	mixed	Bradesco	CB	Agreement	Front office
Chile	100%		Gov't	Internal	All
Costa Rica	100%		Gov't	Internal	All
Mexico	100%		Gov't	Internal	
Netherlands Antilles	mixed	Post Office Savings Bank	CB	Internal	M + Front Office
Nicaragua	100%		Gov't	Internal	All
Peru	100%		Gov't	Internal	All
Uruguay	100%		Gov't	Internal	All

Legend: CB = Central Bank; Gov't = government; M = management

4—The Latin America and the Caribbean Landscape in Perspective

The actual historic pattern for the Latin American and Caribbean region is that postal operators provided domestic and international postal money orders as an add-on service with no tradition of postal savings or banking as in Asia, Africa, and Europe. Instead, in many of the LAC countries, the doctrine of the 1933 US Glass-Steagall Act¹ was mirrored in their regulatory frameworks for financial services. The ensuing segregation of financial service institutions placed the postal network outside the financial sector, in several cases to such an extent that the post office could not act as an agent for a licensed financial institution. Also, the state treasuries did not push to make money through the postal network. As a result, most of the postal operators have been confined to postal money orders which are regulated under UPU treaties.

Most of the countries in Latin America have faced one or more grave constitutional and economic crises. This turbulence and market volatility have not only eroded savings but discouraged savings habits; in general, savings and gross domestic product ratios in Latin America are lower than in Asia or Europe.

Most Latin American postal operators (with the exception of Brazil) had few-to-no resources to diversify or to develop new or financial services organically because the overriding priority was sustaining their position in the core mail market. Due to growing competition from the private sector, poor service quality, and operational losses in the state postal mail services, virtually all financial and management resources were absorbed in sustaining loss-making mail services.

¹ In 1933 in the United States, following the 1929 stock market crash and during a nationwide commercial bank failure and the Great Depression, two members of Congress crafted a piece of legislation known today as the Glass-Steagall Act (GSA). This act separated investment and commercial banking activities, with an amendment that established bank deposit insurance for the first time.

Retail financial services in Latin America are in general well developed and feature high-tech, fast, and modern products that respond to the sophisticated needs of customers and sensitive to fraud risks. Initiatives to introduce financial services through the post offices would need to raise the level of sophistication: one Mexican postal manager described his clients as “poor but no fools.” Traditional products paper-based, manually processed postal savings passbooks will not fit the requirements of the market. The required institutional strength and capital expenditure to set up advanced payments and retail financial services would presumably stretch beyond the current capability of public postal operators to develop these themselves.

In addition, most Central American and Caribbean markets are too small to attain the economies of scale required to commercially justify large-scale investments to set up national postal financial service operations. Regional cooperation has not strongly developed, either.

The development of postal financial services in Latin American and the Caribbean region seems to have well-rooted barriers facing them, and core postal services are hard for governments to relinquish. In certain cases, reforming the public postal operator has led to renewed interest in providing financial services, especially in Brazil, Uruguay, Costa Rica and Argentina. The main focus in Latin America is on extending or upgrading the international postal money order business with the aim of providing low-cost international remittances.

The Role of Latin American and Caribbean Post Offices in Payments

In most of the Latin American and Caribbean countries, large-scale projects for payment systems have made substantial progress. The status of the payment systems and the payment system development programs is reported in the so-called "Yellow Books" prepared by the Center for Latin American Monetary Studies, the Western Hemisphere Payments and Securities Clearance and Settlement Initiative, and the World Bank. In none of the payment system programs underway is the post office linked to the check clearing houses. If they play any role in payments, they must settle directly with the involved financial institutions. This also applies to Argentina, even though Correo plays a significant role in the collection of utility bills. Moreover, the “Yellow Books” sections on the institutional framework do not provide data on the postal networks and in general little data on actual postal payments.

Country	Cashless Payments * (volume in thousands per year)	Number of Postal Payments ** (volume in thousands per year)
Argentina	142,000	1,900.0
Chile	341,000	230.0
Colombia	133,000	0.1
Costa Rica	43,000	0.0
Ecuador	39,000	0.1
Mexico	1,894,000	500.0
Venezuela	264,000	0.3

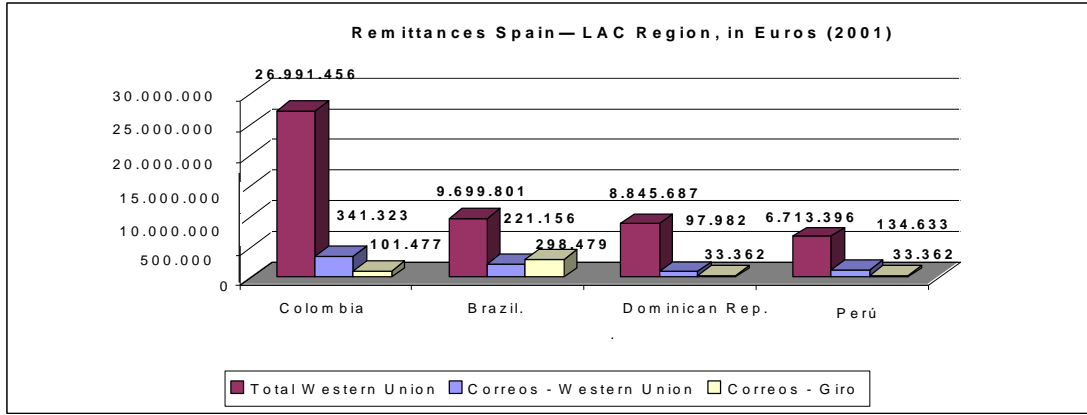
* Source: “Yellow Books” for 2000–03

** Source: UPU, 2002

The Role of Post Offices in International Remittances

With growing numbers of Latin American and Caribbean workers abroad (in the United States and Europe), the business of sending money home is accelerating. According to the World Bank, these flows amounted to more than USD 30 billion in 2002 in the LAC region. However, the international postal money order has lost much of its attraction because it is slow, cumbersome, and relatively costly, and occasionally the money never arrives. Complaints are above 10 percent and an increasingly number of industrialized countries terminated paper-based services after September 11, 2001, to foil easy money laundering and sending funds to support

crimes and terrorism. Services offered by other parties, such as Money Gram and Western Union, have captured a large part of the international remittances market. Western Union has 11,500 offices throughout the LAC region. Their agents include banks, independent organizations, and even post offices (in Argentina and Chile) as their principal agents



The postal services have recently launched an electronic money order service between the Correos in Spain and postal operators in El Salvador, Colombia, Venezuela, Uruguay, and Argentina, using one of the Universal Postal Union’s International Finance System applications. Introducing a so-called tele-money order would improve services offered. This tele-money order resembles the product features and business process of the money transfer products offered by Western Union and Money Gram, except that a low fixed fee is charged, and transmission would take two working days as opposed to the 10–15 minutes advertised by other providers. Other important differences are that marketing, promotions, and pricing, etc., must be determined and developed by the national postal operator, and exchanges will be based on bilateral agreements between postal operators.

However, postal money orders in 2001, with a value of nearly Euro 0.6 million, are a small part of the remittances that originated through the Spanish postal network, and a much larger amount flows to Western Union agents. Introducing electronic money orders might improve this somewhat, but a much more vigorous approach would be needed if post offices in the LAC region want to play a more significant role. Any approach would have to include a thorough market assessment and diagnosis of the current strengths and weaknesses.

Given the fact that most of the remittances to LAC originate from the United States, the involvement of the US Postal Service, or another provider, is critical for capturing a larger slice of the remittance flows. The US Postal Service provides international postal money orders to more than 20 countries worldwide, but too few countries in the LAC region. It has developed a specific product for the Mexican market, the Dinero Seguro, or Sure Money (a fast electronic money transfer product), in collaboration with Bancomer. The US Postal Service does not work with SEPOMEX (the Mexican postal service) in this field primarily due to the poor service quality and reliability experienced during a pilot project. A challenge for LAC postal operators will be to meet quality requirements of remittance providers based in the United States and to develop a unified product offering. Moreover, attempts in the field of remittances focus on this service as a “stand-alone” operation. This cannot be the first step of a “remittances for development” approach, where a fast, high-quality remittance service would restore customer confidence and serve as a springboard to offer a broader package of financial services, such as savings, payment cards, and credit.

The Role of Post Offices in Savings

The role of postal networks in Latin America and Caribbean region in savings has been virtually non-existent in past decades. Any Caja Postal or post office savings bank in operation was a marginalized entity, prior to becoming extinct. Only the Antilles and Aruba have continued to operate postal savings banks (Postspaarbank) that have some relevance within their local economies. In both cases, privatizing them is on the governments' agendas.

The main recent development in savings mobilization is seen in Brazil through the Banco Postal program. The Government initiated the program preparation in 1997 with the intention to provide access to basic financial services to the unbanked communities. The study and pilot experiences led to a partnership between the postal service ECT and Bradesco, a large, privately owned bank. The Central Bank of Brazil allowed the postal network to act as an agent of the bank and take deposit and to handle payment transactions.

The successful Banco Postal program commenced operation in 2002 and within three months more than 100,000 savings accounts were opened through the 1,000 post offices involved. More than 1 million accounts then were opened through the 5,500 public post offices. With the involvement of the post office network, 1,800 municipalities without access points into the financial sector were linked into the formal financial sector through the postal network. The success of the Banco Postal program has reinforced Bradesco's lead in growth of household deposits, and has increased the level of competition in this segment of the market. Other banks, including the Caixa Economica Federal, have reacted by contracting other networks, such pharmacies, lottery agents, and petrol stations.

The Need for Reform of the Postal Networks and Postal Financial Service Entities

As liberalization of the postal sector and increased competition continues in the LAC region, the issue of repositioning, reforming, or privatizing the public postal operator becomes more pressing. A number of reform and privatization attempts have not lead to effective, sustainable outcomes. In several cases, the government and other stakeholders consider that closing a significant part of the postal network and laying off postal workers would eventually result in other costs for the government, which deters them from pursuing privatization. In none of these cases is utilizing the postal networks as existing channels for financial institutions to deliver financial services broadly taken into consideration. Partnering with financial institutions that share the postal networks could significantly contribute to the commercial and economic sustainability of postal networks in the LAC region.

5—Conclusion

There are historical, legal, financial obstacles to overcome to enable postal networks to provide financial services in the LAC region. It is useful to assess in more detail (a) applying lessons from Brazilian postal bank to other LAC countries (i.e., outsourcing key functions in the financial services operation to a competent private sector bank), and (b) capturing—through international cooperation—a stronger role in remittances as a trigger or lead product for a broader spectrum of financial services.

The rationale for doing assessments is to provide easier and broader access to financial services. "Yellow Book" reports on payment systems in the LAC region indicate that up to 75 percent of the population does not have a transferable deposit account (or debit card) with the payments system. The number of bank branches and sub-branches is approximately equal to the number of post offices. Post offices are more evenly dispersed throughout the countries, and found in locations where no banking facilities are available, and could be re-positioned to compliment existing formal financial sector infrastructure.