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CANADA POST CORPORATION AS A PROVIDER OF FINANCIAL AND GOVERNMENT SERVICES: THE WAY OF THE FUTURE?

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INTRODUCTION

In recent years, the idea of closing post offices, especially in rural communities, has resurfaced periodically in Canada, both in local media and in the House of Commons. Whether these are actual plans or just rumours (it should be remembered that a moratorium has been in effect since 1994),[(1)] history has shown that most parliamentarians are quick to defend this institution, which is the federal government's only presence in many communities.

However, rumours of post office closures may turn out to be true in the future. Despite its profitability, Canada Post is, in its own words, "at a crossroads." In its 2004 annual report, Canada Post states that the costs of the retail network in rural Canada continue to grow at or above the rate of inflation, and that while Canada Post is committed to providing service in rural Canada, the high cost of maintaining this network as it exists today continues to put pressure on the corporation's financial resources. The urban post office network is largely a network of private-sector outlets (75%), while the rural post office network remains almost entirely corporately owned and operated (82%).[(2)]

Canada Post is well aware of the need to adjust to the new reality of the postal world, candidly acknowledging that its business model is now starting to show signs of vulnerability and that "technological diversion" of lettermail volumes to electronic alternatives is outpacing the business model's ability to accommodate the impacts.[(3)] In addition, the

(1) On 17 February 1994, the government placed an indefinite moratorium on all proposals to close rural and small-town post offices in Canada, http://epe.lac-bac.gc.ca/100/201/301/hansard-e/35-1/036_94-03-14/036RP1E.html.

(2) Today, Canada Post has the most extensive retail network in Canada, with approximately 6,700 full-service outlets and 16,700 stamp retailers.

(3) Canada Post Corporation, *2004 Annual Report*, 2005, p. 41.

diversification strategy that has sustained the business and the cross-subsidization of universal postal service in recent years is itself under attack. On one hand, Canada Post is dealing with a situation that is typical for Crown corporations that must balance the demands of fulfilling a social mandate with the imperatives of operating a business. On the other hand, the situation is new in the sense that in the most lucrative market niches (courier services, direct marketing and logistics), Canada Post is up against competition from international corporations with more diversified bases. Because of the global consolidation of the industry, international competitors(4) use their considerable size and reach to put pressure on competing services and rates.

Nevertheless, the challenge of maintaining universal postal service is common to all countries; and from that perspective, the recent experience of some European postal administrations might help Canada Post cope with its present challenges.

In the mid-1980s, postal administrations in a number of European countries underwent, to varying degrees, modernization, rationalization, transformation or privatization to improve their profitability and minimize state subsidies. In every case, the issue of maintaining a network of local post offices was at the centre of the debate. In retrospect, it seems clear that the changes experienced by some European postal administrations were beneficial and that in a number of countries, the survival of universal postal service is attributable to the cross-subsidization made possible by the addition of new products, related services and, in particular, a wide range of financial services.

Unlike Canada Post and the United States Postal Service,(5) major European postal administrations do not regard the erosion of lettermail volumes,(6) prevalent throughout the Western world, as necessarily a negative trend. In their view, the postal services market is simply continuing to evolve toward a one-way distribution system and thus away from the more traditional model of two-way communication.

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(4) The literature refers to the major integrators: FedEx, UPS, DHL and TNT.

(5) Canada Post Corporation (2005).

(6) While volumes are declining, the number of addresses in Canada continues to rise, which lowers the number of mail items per delivery point, or mail density, and increases delivery costs.

For the European Commission, the architect of the liberalization of European postal markets,[7] it is clear that postal service providers are increasingly becoming modern, complex industrial organizations that take advantage of technological advances to offer consumers new types of more innovative, personalized, value-added services. An example of this evolution is the central role played by postal administrations in the booming on-line shopping market. Along with other media, the postal network is now a key player in delivering information and merchandise to consumers. In this new environment, market forces are creating the conditions needed to increase the value of the mail medium. In view of these prospects for growth, the European Commission considers the image of mail as a disappearing medium to be outdated.

This difference in outlook between North American postal administrations, still largely confined to their traditional role, and their more forward-looking, globalized European counterparts is fundamental. It is attributable to many different factors, notably the impetus provided by the prospect of complete liberalization of postal activities across the European Union by 2009.

The present publication is intended to foster a debate on alternatives that might lead to better use of the Canadian postal network, a use that could help Canada Post cope with international competition and fulfil its "social" mandate as well. As an exploratory suggestion, the publication explores the idea of gradually transforming Canada Post by adding the services of a state-run postal bank, or a one-stop outlet for various non-postal government services, or both. It begins with a general description of Canada Post's situation. The second part fleshes out the idea of a postal bank with an overview of the situation in four European countries; it notes that in Italy and, to a lesser extent, the United Kingdom, the postal administration also provides some government services on a "contractual" basis. The last part focuses on certain structural components of the Canadian dynamic that might drive or deflect Canada Post's redeployment toward a model similar to that of European postal services.

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(7) Directive 97/67/CE provides a regulatory framework for postal services in Europe. Since the establishment of the domestic postal market is important for the European Union's economic and social cohesion, the directive both upholds the rights and obligations of universal service providers and guarantees a free market for postal services.

CANADA POST CORPORATION: YESTERDAY, TODAY AND TOMORROW

A. Overview

Canada Post Corporation – also known as Canada Post Group – is a federal Crown corporation. It was established by the *Canada Post Corporation Act* on 16 October 1981. Canada Post collects, processes and delivers over 10 billion pieces of mail a year throughout Canada and between Canada and more than 200 postal administrations around the world. It serves approximately 14 million urban and rural addresses in Canada. Canada Post's products and services are sold through a network of just under 24,000 retail outlets. It is the 40th-largest corporation in Canada in terms of gross revenue, and the 7th-largest employer.

Canada Post Corporation, which is responsible for traditional postal operations, is the principal component of the Canada Post Group, which also includes Purolator Courier Ltd., epost, Innovapost, Progistix Solutions Inc. and Intelcom Courrier Canada Inc.

- *Purolator Courier Ltd.* is part of the overnight courier industry in Canada. It employs more than 12,500 people and processes over 5.5 million items each week. Canada Post holds 90.5% of Purolator's common shares.

- *epost* is an on-line electronic bill presentment and payment service that enables Canadian companies and individuals to send and receive electronic mail, send out and pay bills, and send out special advertisements in a private, secure environment. The service is available through a number of handy access points, including the epost Web site, financial institutions' on-line banking sites, and some Web portals.

- *Innovapost*® provides information systems and information technology services and e-commerce solutions to the Canada Post Group, its customers and other postal administrations around the world. Canada Post Corporation is its majority shareholder (51%), and CGI Group holds the remaining shares.

- *Progistix Solutions Inc.* is the largest Canadian-owned third-party logistics company in Canada. It designs and deploys customized supply and logistics solutions.

- *Intelcom Courrier Canada Inc.* is a leader in the local, regional and national courier industry.

- *Canada Post International Ltd.* markets Canadian postal technology, expertise and business processes in the international postal consultancy market. It owns 100% of Nieuwe Post Nederlandse Antillen N.V., which operates a postal and banking concession in the Netherlands Antilles.

In partnership with the French postal administration, Canada Post continues to develop and market *PosteCS*®, a secure document delivery and e-messaging solution that helps businesses to communicate privately and confidentially over the Internet. It allows customized applications to be built and integrated with existing corporate e-business systems and legacy applications.

Along with 20 major postal administrations, Canada Post is also a shareholder of International Post Corporation (IPC), based in Brussels, Belgium. IPC's mission is to actively promote the development and improvement of international postal service.

B. A Previous Transformation

On 14 April 1981, the Canadian House of Commons passed the *Canada Post Corporation Act* to turn the postal service from a department into a Crown corporation.

For the government of the day, a complete overhaul of the Canadian postal administration had become necessary because of the steady deterioration in the quality of service during the decades preceding the legislation. Serious disputes between the department and its employees, which led to a number of strikes that brought postal service to a standstill, were among the factors that contributed to the decline in the quality of service. In a context that favoured the organization of public service workers in the 1970s, the postal workers union waged an intense struggle for better working conditions in an environment that was being transformed by the mechanization and automation of mail processing. Administration of the department was made more complex by factors such as worker demands, a serious annual deficit that climbed to $600 million in 1981, and an increasingly competitive market.

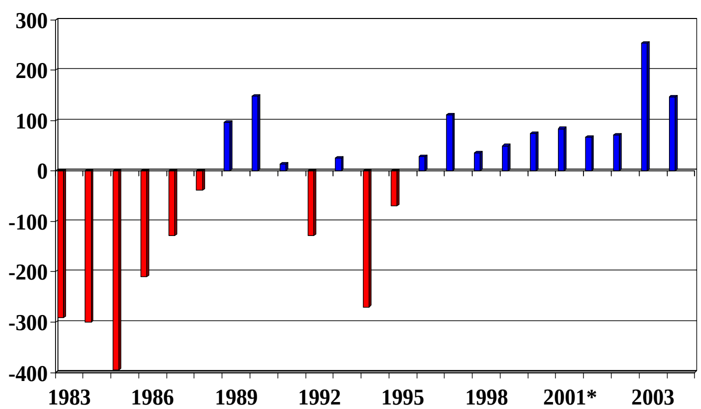
The federal government's top priority was to give the new postal administration the autonomy required to develop business objectives that would make postal services self-sufficient in Canada and improve labour relations and service. Among the changes that made it possible to achieve these new business objectives were the franchising of postal outlets, the privatization of other services, rate increases, the closure of post offices (especially in rural areas), technology development and use, and the penetration of new markets (e.g., the acquisition of Purolator in 1993). As a result, in 1989 Canada Post made its first profit since 1957.

C. A Profitable Crown Corporation

Today, Canada Post is a profitable organization that carries out its mission without public funding, except for about $60 million a year to deliver postage-free parliamentary mail and provide service to blind people and to northern communities.(8) In view of Canada's geography and the fact that Canada Post does not sell financial services, this self-sufficiency is remarkable. Even today, postal administrations in many countries receive government assistance or tax breaks(9) (e.g., Spain, France, Japan and Norway) or are financially compensated for maintaining an unprofitable universal postal service (e.g., the United Kingdom, Sweden).

In 2004, Canada Post made a profit for the tenth consecutive year. Its consolidated net after-tax income was $147 million for the year ended 31 December 2004. It is worth noting that Canada Post has had to pay federal income tax since 1994. It also pays provincial and corporate taxes.

Figure 1: Canada Post Corporation
Net Profit (millions of dollars)



* Since 1 January 2002, its financial year has been the calendar year.

Source: Canada Post Corporation.

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(8) *2005-2006 Main Estimates*, Treasury Board of Canada Secretariat. There is also a $150-million payment for the introduction of the Canada Post pension plan during the transition period.

(9) Postal Services Commission, *Post Office Networks Abroad*, London, December 2003.

In addition to paying taxes to its shareholder (the federal government), Canada Post also pays a dividend. On the basis of its financial performance in the preceding year, Canada Post declared and paid dividends of $63 million and $59 million to the Canadian government in 2004 and 2005 respectively.

D. A Corporation at a Crossroads

Canada Post's strong performance is no reason to ignore the truism that the past does not guarantee the future. John McCallum, the minister responsible for the Crown corporation, noted as much when the 2004 annual report showing a solid financial performance was tabled: "There are many challenges facing the corporation in the coming years and now is the time to prepare to meet those challenges."

Nearly 25 years after it became a Crown corporation, Canada Post is, according to some observers, ripe for another transformation.[(10)] That transformation is needed for the reasons given below.

1. Alternative Electronic Products

The steady decline in mail volumes is the most serious threat to Canada Post's future profitability under its current business model. Most of the blame for this 1-3% annual decrease in traditional mail volumes in industrialized countries lies with alternative electronic products. The shrinkage has been hastened by large corporations' growing use of bill consolidation, where two or more operating divisions send out combined bills, thereby reducing the number of items mailed. Technological advances are making e-commerce simpler, more secure and less expensive for both businesses and their customers. Canada Post believes that more than 75% of the information currently being sent by mail in Canada is now available on-line.

In response to this development, many postal administrations have ventured into electronic postal services. Canada Post believes that its epost service has significant growth potential as businesses take advantage of the opportunities that electronic communications provide for cutting costs and increasing operational efficiency.

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(10) Georges Clermont, "Competitive challenges: The new postal world," in Sylvain Bacon and Michael S. Coughlin, eds., *The Postal Project Volume 1: Pushing the Envelope: Achieving High Performance in A Competitive Postal Environment*, Montgomery Research and Accenture, May 2004, http://www.postalproject.com/documents.asp?d_ID=2445.

In July 2004, epost acquired the webdoxs service, thereby advancing the electronic bill presentment and payment market in Canada with a registered user base of over 1.6 million. As a result of the webdoxs acquisition, epost's electronic transactions have increased fourfold on a monthly basis since the beginning of 2004. On the other hand, electronic postal services, despite their growth, have not proven to be significant revenue generators.[(11)] This is reflected in the fact that the combined operating revenue of the group composed of *epost*, *Innovapost* and *Canada Post International Ltd.* was $192 million in 2004, down $18 million from 2003. Moreover, the group lost $8 million in 2004. Canada Post nevertheless expects this group of innovative services to reach profitability by 2007.

In 2004, this segment of the corporation accounted for less than 3% of consolidated operating revenue, compared with 46% for traditional postal services. Parcel and courier services, including Purolator, made up 32% of Canada Post's operating revenue, and advertising services (Admail) made up 11%.

2. National and International Competition

The other major challenge that Canada Post has to address is globalization. The international market today is dominated by corporations with a diversified service portfolio. These organizations are notable for their influence on technological development, their brand-name recognition – often the reference brand in the industry – and their ability to take advantage of the size and density of major international markets. They have increased their size and reach through acquisitions, mergers and partnerships with courier services, air cargo firms, logistics companies and surface courier services in Asia, Europe and North America. Their goal is total control of international networks, which would ensure superior quality control from pick-up to final destination. This global consolidation of the industry is pushing some national postal administrations to the wall as international shipping firms put pressure on competing services and rates.

The new international playing field is making the postal business increasingly demanding for a national operator such as Canada Post, which must also compete with a multitude of local and regional companies. This situation is not unlike that of the air transportation industry: national airlines went through a consolidation phase a number of years ago just as the most lucrative markets were grabbed by discount airlines with flatter organizational structures.

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(11) *Ibid*.

To illustrate the scope of the coming change, some observers are predicting that, as in the airline industry, the European Union may have only a few large postal service operators in a few years' time. Georges Clermont,[12] a former CEO of Canada Post, has not ventured that far, but he does note that a number of European postal administrations have already admitted publicly that it will be difficult, if not impossible, to operate alone in such a competitive market. Consequently, the postal administrations will have to form partnerships or make acquisitions.[13] The ones that are legally able to do so will have to pursue growth outside their traditional business and outside their national boundaries. This growth will be essential if they are to generate or attract the capital to make the investments needed to remain competitive in cost and quality of service.

In Canada and the United States, in tandem with globalization, the ongoing integration of the North American market is increasing the need for companies with an international dimension. While Canada Post has a wide range of services domestically, its international presence remains limited. This shortcoming makes the Canada Post Group more dependent on its competitors for international shipping. In addition, several international operators have made sizable investments to expand their retail and on-line presence and are therefore able to reach the small business and individual sector, which is the source of much of Canada Post's business.

Clearly, then, Canada Post will have to move farther away from the comfortable state monopoly model,[14] which dominates the national market and can depend on economic and population growth to justify having an extensive network of retail outlets and post offices, with their high fixed costs. A number of observers are concerned that it will soon be impossible to guarantee affordable universal postal service unless postal administrations are given a more commercial mission and can take advantage of these competitive services to a greater extent.

Canada Post is realistic about the challenges it faces and is currently reviewing its retail strategy to clarify and improve the level of access to services that customers can expect, while at the same time exploring ways of making the retail sales network more efficient and

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(12) *Ibid*.

(13) Some major European postal administrations (Germany, France, Netherlands, United Kingdom) now operate in the North American market, either directly or through subsidiaries that have strategic alliances with the major logistics operators (UPS, FedEx, DHL and TNT).

(14) Sylvain Bacon and Michael S. Coughlin, "Achieving High Performance in A Competitive Postal Environment," in Bacon and Coughlin (2004), http://www.postalproject.com/documents.asp?d_ID=2443.

more profitable. It remains to be seen whether better management of the processes, systems and networks with no change in the current business model will be enough to meet the coming challenges. The answer in some quarters is no. To survive in tomorrow's world, postal administrations will have to change.(15) However, it is not clear whether Canada Post's current legislation gives it the latitude to make the required choices to exploit growth opportunities (e.g., financial services) outside its traditional business (diversification) and beyond national boundaries (globalization).

THE POSTAL BANK IN EUROPE: ONE COMMON IDEA, DIFFERENT NATIONAL EXPERIENCES

Postal banks and their many national variants(16) are part of the everyday lives of millions of Europeans, who for decades have depended on them for a wide variety of services.(17) Yet they are almost unknown in North America, where the idea of using a highly localized outlet network to combine and distribute financial and postal services has never taken root for historical, sociological and economic reasons. In North America, postal services and financial services have basically evolved on parallel tracks.

Originally, the financial operations of European postal systems were limited to two well-defined activities:(18) receipt of deposits, and payment services. The idea was to provide uncomplicated financial services to a modest customer base through a network of outlets in local communities. In other words, postal financial services were to serve as a sort of social bank. This social function of postal financial services gained currency in most countries during the 20th century.(19)

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(15) *Ibid.*

(16) Postal banks are not exclusive to Europe; they exist in Japan, New Zealand and other countries.

(17) In Europe, postal financial services emerged during different periods. In France, the introduction of the first *bank* accounts that could be opened with a fairly small amount of money dates back to 1918, but such accounts did not become widespread until after World War II. The distribution of free cheques was intended to familiarize French citizens with banking, and it had a lasting effect on their payment habits. In the United Kingdom, the postal payment service, National Giro, was created in the late 1960s, well after the Post Office Saving Bank (later National Savings), established in 1861. The Dutch equivalent was formed in 1881, and the postal payment and funds transfer system was introduced in 1918. In Germany, the postal administration's involvement in the financial industry dates back to 1908, when the first postal payment service was created.

(18) Adderrahim Doulazmi, "Les banques postales en Europe : vers la banalisation?" *Revue d'économie financière*, No. 78, March 2005.

(19) This period coincides with the development of caisses populaires and credit unions in Canada.

However, the missions given to postal networks, institutionally or otherwise – whether they were to provide universal banking service for the purpose of offsetting the shortcomings of traditional banks, or to participate in regional development – eventually led to serious financial problems. For postal administrations that remained exclusively in their traditional roles, these difficulties were quickly exacerbated by a liberalizing trend that reduced the revenue from lettermail monopolies.

The liberalization of the postal industry, particularly with regard to the shipment of parcels and lettermail, rekindled interest in financial services, which have played a big part in the survival of the postal system. As a result, we are seeing a growing shift in the strategies of postal operators toward the financial services business in various forms (partnerships, new subsidiaries, etc.). In a few decades, European postal banks changed from relatively passive deposit and payment institutions to high-profile distributors of financial products. For example, the French postal administration today derives 23% of its gross earnings from the sale of financial services; for its German counterpart, Deutsche Post World Net and its Postbank subsidiary, the figure is 19%.(20)

Despite the cachet of modernity that the integration of postal and financial services may have for North American observers, the postal bank is continuing to evolve still further in most European countries. The 2009 deadline for the complete liberalization of the European postal market, combined with the consolidation of the European banking sector, is generating a strong strategic shift and a continual repositioning of European postal administrations and banks. Although the system is in a constant state of flux, there are two main models for postal operators' entry into the financial services sector: the banking model and the state enterprise model. Each has features that may be of interest to Canada Post, since it is attempting to make maximum use of its postal network assets while diversifying its operations and product lines.

The next two sections of this publication describe the two main "families" of postal banks in Europe, tracing the history of postal financial services in four countries: Germany, Italy, the Netherlands and the United Kingdom. While these stories have the same starting point – the establishment of savings banks and postal payment systems – each one reflects specific strategic and institutional choices consistent with the history of the country in question. This finding suggests that a Canadian solution can be found, and that it makes sense for Canada to consider establishing a postal bank in order to breathe new life into its national postal administration.

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(20) Canada Post Corporation (2005).

A. The Banking Model

1. Germany

On the European banking scene, Germany's Postbank (postal bank) is certainly the most mature model of a postal bank. It was formed in 1989, when a reform of the federal post and telecommunications administration spawned three public enterprises: Deutsche Post, Deutsche Telekom and Postbank. Six years later, it became a full-fledged bank and, through a cooperative agreement with Deutsche Post, enjoyed exclusive access to the postal network for the distribution of its products. However, differences arose between the two parties concerning the allocation of network costs, which led Deutsche Bank to take control of Postbank in 1999. Since then, Postbank has been a private limited company (i.e., a company with shares) owned by Deutsche Post, from which it had been separated in the 1989 reorganization.

In 2000, Postbank acquired the DSL bank, thus becoming one of the ten largest German banks in terms of total assets.(21) Its estimated share of the retail banking market in 2004 was 9%. Postbank is also the second-largest bank in Germany in number of business clients. Truly a full-service bank, Postbank offers its 12.2 million customers a full range of banking services.

As a retail bank, Postbank has the most extensive network in Germany, with 9,000 outlets, ten times more than Deutsche Bank, the leading German bank. There is also considerable potential to expand its clientele, as 80% of the 2 to 3 million people who use post offices each day are not Postbank customers. In short, Germany's postal bank is developing a universal bank strategy by positioning itself in every niche in the banking industry. The pervasiveness of the postal network and Postbank's powerful brand image make it a formidable competitor for Germany's commercial banks, which are already being battered by competition from savings banks and regional banks.

2. Netherlands

At an early stage in their existence, the Netherlands' postal financial services became completely absorbed into a major banking and insurance conglomerate. The Dutch Postbank was born from the 1986 merger between the postal savings bank and the Dutch postal

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(21) Listed on the stock exchange since June 2004, the German Postbank reported total assets of €180 billion in the first quarter of 2005 and generated a before-tax profit of €624 million in 2004.

cheque service. It became a private limited company with the State as its only shareholder. However, its growth was limited by law: it was prohibited from having offices outside the Netherlands, making loans in foreign currencies, selling investment funds or offering insurance products.

In 1989, those restrictions were lifted when Postbank merged with NMB Bank, one of the Netherlands' largest commercial banks. They complemented one another almost perfectly: Postbank was strong in consumer banking, and NMB was well established in the business market and was active internationally. An additional step was taken in 1991 in anticipation of the 1993 inauguration of the Single European Market: NMB Postbank merged with the Netherlands' largest insurance company, Nationale Nederlanden, to form the ING Group. At the same time, the State's share of the new conglomerate's capital was reduced to less than 1%.

Within the new group, the Postbank brand was retained, and even promoted, because it was an image that customers trusted. The range of products was expanded to include every aspect of personal banking (chequing accounts, credit cards, savings products, home ownership savings plans, consumer credit, travel and general insurance, pension products, financial advice, bill and tax payment, various administrative procedures, etc.) and business banking (management of payment instruments, investment credit, mortgage loans, leasing, etc.).

To distribute its products, Postbank relies on a very effective strategy that ensures that nearly 60% of Dutch households are its customers. This strategy relies primarily on the contractual relationship that Postbank established in 1991 with its post office network, Postkantoren (a 50-50 subsidiary of Postbank and TPG, the Dutch postal administration). Postkantoren serves 16 million residents and has about 2,000 outlets, including more than 1,600 postal agencies in grocery stores and other small retail operations. Postbank has exclusive access to the Postkantoren network, which cannot distribute other (i.e., non-Postbank) financial products. Postbank, however, may distribute its products also through other means.

3. United Kingdom

The evolution of postal financial services in the United Kingdom is fairly recent. The postal cheque service, National Giro, was established in 1968. Its purpose was to provide low-income people with a kind of banking service. It experienced considerable difficulty at first, until it specialized in receiving and managing funds deposited by retail stores and became a market leader in that area.

In 1979, it was renamed Girobank and became an independent branch of the postal service. After its acquisition by Alliance & Leicester in 1990, Girobank confined itself to serving businesses (mostly retail). Individual customers were transferred to the group's Personal Financial Services division. In 2003, the various commercial banks in the group were combined under a single brand name, Alliance & Leicester Commercial Bank. The latter provides a broad array of business services: cash and cheque management, commercial loans, bill payment, international transactions, deposit accounts, asset management, etc. The group continues to distribute its products through the Post Office, a wholly owned subsidiary of the British postal administration, the Royal Mail, which has nearly 17,000 retail outlets (90% of which are postal agencies, mostly in stores) serving 60 million people.

In the personal financial services area, the Post Office also formed a partnership with the Bank of Ireland; in late 2003, they established a joint venture to market personal loans, savings accounts, credit cards, insurance, mortgage loans and other products under the Post Office brand name. The products are distributed through the network of postal agencies, and also via telephone and the Internet. In the area of consumer credit, the Post Office is aiming for a market share of 2.5-5% in the next few years. By opening up its network to banking partners, the British postal administration is taking a new approach to the delivery of financial services, an approach that relies on the power of the Post Office brand name and benefits from an extensive multi-service network that reaches a large pool of potential customers.

In addition to traditional mail services and financial services, the Post Office offers a plethora of products and services: payment of utility and other bills (water, power, gas, telephone, etc.), receipt of family allowance and other government benefit payments, and sale of telephone cards, amusement park tickets and even flowers and chocolates. The network also provides many government-related services, such as receipt of passport and driver's licence applications, distribution of automobile stickers, and receipt of television licence fees.

B. The State Enterprise Model: Italy

The Italian postal administration (Poste Italiane) is the country's leading employer, with 151,000 employees, and one of its ten largest corporations in terms of gross earnings (€9 billion in 2004). It made a consolidated net profit of €236 million in 2004, its third consecutive year in the black.

Since 1998, the Italian postal administration has been a limited company whose only shareholder is the State. Today, postal financial services, known as Bancoposta since 2000, form one of the enterprise's divisions and account for a major portion of its gross revenue (44% in 2004). A more ambitious project to create a completely separate entity was dropped, primarily because of opposition from unions and the banking community.

The Italian postal network has nearly 14,000 corporately owned outlets (as opposed to postal agencies) and competes effectively with traditional banks by offering services at a much lower cost. In the space of four years, more than 4 million Italians have opened a postal account. Bancoposta is a transactional bank (i.e., it performs transactions for its customers, but it does not provide financial advice), but its range of products is limited and only for individuals and businesses:

- retail banking: current accounts, credit cards, money transfers, savings products, life insurance, personal loans, mortgage loans, on-line banking;
- banking for businesses and public institutions: postal transfers, payment cards.

Credit is provided through partnerships. Bancoposta has formed many non-exclusive partnerships with banks, the largest of which is Deutsche Bank Italia (in consumer and real estate credit). It also has a cooperative arrangement with Crédit Suisse. A commission paid by partners for the distribution of their products is set in advance and renegotiated periodically.

Unlike other European postal administrations, Bancoposta has a young customer base, primarily due to its unique, inexpensive service; 40% of its customers are between 17 and 35. It has become the largest Italian bank in number of outlets, the fourth-largest in number of accounts, and the eighth-largest in deposit holdings (€212 billion). It also distributes its own products – simple products such as conventional savings and payment instruments – and the more "sophisticated" products of other banks, such as credit, bank cards and insurance. Since 2001, it has been legally entitled to operate in the investment services area. Bancoposta's competitive advantages in the form of an extensive outlet network and a broad customer base make it a heavyweight in the Italian banking industry, which is just entering the consolidation phase.

The unique aspect of the Italian postal administration is that in addition to providing financial and postal services, it is gradually becoming a leading player in the delivery of government services, with the stated objective of going farther than its British counterpart. While the Italian government wants to develop its on-line services, it is also aware of the need to continue providing services to the public by more traditional means. The postal administration and its outlet network are perfect partners for that purpose. Moreover, just as the Italian government is interested in contracting out the delivery of non-strategic services in order to reduce its budget deficit, the postal administration is attempting to fully exploit its potential as a one-stop access point, having made major technological investments and undertaken a number of projects in recent years so that it will be able to provide government services (e.g., passports and other official documents) on-line and at a low cost.

In short, delivering government services under contract gives postal administrations a unique opportunity to reinvent themselves and make use of assets that will enable them to meet the many demands and requirements (quality of service, number of outlets, secure communications, multimodal services, etc.) inherent in providing services to the public (consumers, citizens and businesses).

REDEFINING CANADA POST’S MANDATE

This section focuses on two major themes that are crucial from the standpoint of redefining Canada Post’s mission to include a socio-economic mandate combining financial services and selected government services – as a major partner in the Service Canada Initiative, for example.

A. Social Mandate: Operating a Unique Network to Serve Canadians

At a time when political institutions and governments have to cope with a certain amount of cynicism on the part of large segments of the population, the State today has to find ways of reaching its citizens in order to meet their complex expectations in a society where efficiency and effectiveness tend to be the predominant criteria for any form of action. Continual advances in the quality of private services is forcing public services to look for more flexible, suitable and versatile ways of performing their functions.

Since local access will be a quality-of-service value in the future, the network of post offices and postal outlets is an extraordinary asset that could provide Canadians with the services they expect, as long as it is able to keep pace with changing work, recreation and shopping habits. With the current emphasis on doing everything electronically (mail, payments and financial transactions), some observers question the wisdom of retaining an extensive network of postal service outlets, whose profitability is eroded by the operating costs of branches in sparsely populated areas. Some will say bluntly that the network is obsolete.

Nevertheless, service outlets will always have their advocates and will continue to play a complementary role – in some cases, an irreplaceable one – relative to electronic services. During the 2002 hearings of the Standing Senate Committee on Banking, Trade and Commerce concerning bank mergers, some consumers of financial services told the Committee that access to a range of services and service providers by residents of all regions of Canada should be considered in the context of any particular bank merger proposal. They stressed that convenience, quality and competitive pricing must be safeguarded, and noted that the convenience of electronic banking comes at additional cost and may not completely replace the need for personal interaction.(22)

Moreover, according to the Retail Council of Canada:

> Retailers are regular and heavy users of local banking services. … They are essential to the day-to-day operation of a retail business. … In smaller communities the loss of a local branch would force retailers to travel substantial distances for financial services that can only be done face-to-face … .(23)

Hence, what some people may see today as a cost may become an asset tomorrow.(24) As in the case of some European countries, the Canadian postal network might end up forming the backbone of a network of multimodal one-stop service outlets, since it is unquestionably in the best position to develop service delivery to the public at the local level,

(22) Standing Senate Committee on Banking, Trade and Commerce, *Competition in the Public Interest: Large Bank Mergers in Canada*, Sixth Report, December 2002, http://www.parl.gc.ca/37/2/parlbus/commbus/senate/com-e/bank-e/rep-e/rep06dec02-e.htm.

(23) *Ibid*.

(24) Postal administrations around the world have much larger outlet networks than financial institutions do.

especially in rural and suburban areas, where government and other public services need to be made more accessible.(25)

When the Service Canada Initiative pilot project was launched in 1999, 156 satellite access centres(26) were installed in post offices,(27) and they were moderately successful. However, the project ended in January 2004.(28) Now that the federal government has revived the Service Canada Initiative on a larger scale in the 2005 budget, it would certainly make sense to re-examine the role that the postal network might play in delivering public services, especially transactional ones. Since one of the objectives of the Service Canada Initiative is to save money for the government, it would be counterproductive to build a parallel network.

B. A Way of Counterbalancing Future Bank Mergers?

It would undoubtedly be a formidable political, economic and legal challenge for the Canadian government to transform Canada Post into a postal bank offering a range of financial services whose scope would depend on government decisions. Moreover, such a move would quickly draw vociferous arguments from Canadian financial circles about unfair competition.

As readers will recall, courier companies protested loudly when Canada Post acquired Purolator in 1993. Canada Post was immediately accused of using its lettermail monopoly to subsidize its competitive operations. Since then, monitoring mechanisms have been

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(25) Canada Post continues to maintain the most extensive retail network in Canada with approximately 6,700 full-service outlets and approximately 16,700 stamp retailers. Documents and parcels are processed through 23 urban sorting plants and approximately 500 letter carrier depots, using approximately 6,800 vehicles, for delivery to 13.8 million commercial and residential addresses in Canada. This extensive retail and delivery network provides for access to, and delivery of, numerous postal, retail, commercial, financial and government products and services. (Canada Post Corporation [2005], p. 31.)

(26) These *satellite access centres* are equipped with Internet computers and have a limited list of frequently requested forms and publications. Staff assistance is available to clients on an "as available" basis.

(27) Service Canada, *2002-2003 Annual Report*.

(28) The Service Canada Initiative was intended to provide Canadians with one-stop access (in person, by telephone and on the Internet) to federal government services. The 156-site Canada Post satellite access centre network was made possible by leveraging investments from Industry Canada's Community Access Program for 124 sites, as well as through contributions from the Rural Secretariat for 20 rural sites and initial Treasury Board Secretariat investments in 12 rural sites. The two-year agreement between Human Resources Development Canada and Canada Post for the 156-site satellite access centre network expired on 31 December 2003. After a mapping exercise to plot the distribution of federal points of presence and Community Access Program sites against Canada's population, and a review of client demand for assisted services across the Service Canada network, the partners agreed in January 2004 to withdraw Service Canada services from the 156 Canada Post satellite access centre sites.

introduced to ensure that it does not cross-subsidize its competitive services group or any other combination of competitive services with revenues from its exclusive operations.

In any case, the emergence of a strong new player in the personal and/or business financial services market could be seen as a disruptive factor contrary to the interests of established financial institutions. Some might regard such an initiative as poor economic policy because it does not meet the needs of Canadian industry, which is lobbying for greater consolidation (bank mergers) to address competition on international markets and not for increased fragmentation in the retail banking sector, which would weaken the existing players in the market. The argument could also be made that Canadians should have access to all the financial services they want without state intervention involving the creation of a new competitive entity. Finally, all other things being equal, many people may wonder what the government, as Canada Post's sole shareholder, is doing in the financial services industry, flouting tradition in Canada, which, unlike some European countries, has little experience with government-run banks.

Before opposing this suggested new role for Canada Post, however, the industry would be well advised to wait and see what legal form the new entity might take (e.g., a division within Canada Post, or a totally independent subsidiary or entity) and what its prerogatives and functions might be regarding the sale of financial services (e.g., a financial services producer, or simply a distributor with a separation between product development and marketing).

Clearly, though, whatever model might be selected, the postal network's size will remain an issue, as it has been and still is in most European countries. In Germany, for example, Postbank has access to a network of 9,000 outlets, 10 times more than Deutsche Bank. Similarly, the British Post Office's network consists of nearly 17,000 outlets, more than the four largest banks put together. The same is true in France and Italy, where the scope of the postal network is a considerable asset in the postal operators' strategies on the retail banking markets. Consequently, the issue of exclusive access to the postal network would be raised in short order. Would the new postal bank, whatever its legal form or level of affiliation with the postal operator, be the only financial institution permitted to use the network to distribute its products, or would the network be at the disposal of other financial institutions?

The industry's likely objections concerning the legitimacy and appropriateness of creating a postal bank might be appeased somewhat if the federal government opened the door to bank mergers in the next few years. This would completely change the financial services picture. The new postal bank could take up the slack in markets abandoned by the newly merged banks and thus provide some form of competition, especially in rural areas. There – and also in other areas – the introduction of a postal bank might improve the level of financial services in markets that today are largely dominated by caisses populaires and credit unions.

CONCLUSION: A POSTAL BANK – WHY AND HOW?

Does Canada need another bank? Canada is not "underbanked," and if its major financial institutions were not meeting consumers' expectations, foreign firms would long ago have taken market share away from them.(29)

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,(30) today's postal administrations can either sink, while continuing to complain about declining mail volumes and electronic alternatives in this 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.

Perhaps, then, Canada Post might be given the means to realize its ambitions. As noted earlier, expanding its financial services(31) would certainly be a controversial option. Moreover, becoming a bank is not a trivial undertaking, and even if Canada Post were to provide financial products only through partnerships with established financial institutions, banking is a complex business which is evolving more and more into a consulting service and requires skilled human resources. Yet others have taken on the challenge with great success.

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(29) In 2004, the ING Direct bank topped the $15 billion mark in personal deposits in Canada. The largest on-line bank in the country, known for having higher savings account interest rates than the competition, ING surpassed Banque Laurentienne and caught up to HSBC in total personal deposits in just eight years.

(30) Elina Piispanen and Jérôme Vercamear, "Innovation in products and services," in Bacon and Coughlin (2004), http://www.postalproject.com/documents.asp?d_ID=2470.

(31) Canada Post already offers exchange services for major foreign currencies.

The option of making Canada Post a government services agent, as the postal administration is in the United Kingdom and to a greater extent in Italy, might be just as controversial, in view of the predictable reaction of public service unions; it would also be much less lucrative for Canada Post. In Canada's current circumstances, however, it is the most likely short-term option. It would certainly help reduce the costs of maintaining universal postal service, but it would be of little value in addressing the challenges of globalization and technological change.

In conclusion: apart from the status quo, which is not an option for the future for Canada Post, all other options are still on the table.(32) Accordingly, Canada Post might consider developing a growth-oriented business plan that the federal government could support with an appropriate legislative framework, as it did 25 years ago.

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(32) A number of options have not been discussed in this report. For example, Canada Post could acquire a Canadian bank, distribute the products of a major foreign bank, or go into partnership with the U.S. Postal Service to form a huge North American postal operator.