

---

# Post Office Network Business Development Group

---

Initial Report to  
Minister White

---

May 2015

---

# Contents

Foreword	3
Chapter 1: The Post Office Network	5
Number of Post Offices	5
Post Office Distribution	6
Post Office Business Analysis	7
Chapter 2: The Challenges Facing the Post Office Network	13
Role of the Post Office Network	13
Challenges and Risks facing An Post and the Network	13
Chapter 3: The Post Office Business Development Group	17
Work to Date	17
Engagement	18
Future Work	18
Chapter 4: Areas of Opportunity	20
Financial Services	20
Drivers for Change (and the consequences of inaction)	21
Government Services	22
Social Capital and Enterprise	23
White Labelling	24
Chapter 5: Findings and Next Steps	26
Financial Services	26
Government Services	26
Social Capital and Enterprise	26
White Labelling	26
Next Steps	27
Appendix 1: Membership of the Business Development Group	28

## Foreword

In presenting this initial report of the Post Office Business Development Group (the “Group”), which was established by Minister Alex White T.D. in January 2015, I would like to acknowledge the assistance of all the people working on the Group and towards our common objective. Firstly, Minister White for inviting me to Chair the Group, the Irish Postmasters Union (“IPU”) for their ongoing cooperation, An Post for giving me access to financial and management information and Ministers of State McHugh and Phelan for their active participation in our deliberations to date.

Consumers, and the way in which they do business, have changed markedly in recent years with a move to online and the prospect of a cashless society becoming a very real prospect in the years to come. This presents a very significant challenge for An Post and postmasters – a challenge that nobody should take lightly. While An Post has the best retail infrastructure in Ireland and remains a trusted brand, particularly in rural Ireland, maintaining its relevance to a changing society should not be underestimated by anyone.

As much as the imperative for action is clear, the opportunities are numerous – I believe that An Post is best placed to provide a customer-led solution for a host of financial and government-related services right across the country. The withdrawal of retail banks entirely from many areas of the country and the removal of cash transaction facilities from many of those branches that remain provides a clear business growth opportunity for An Post.

The Group’s debates around what the future holds have been robust, yet respectful, with everyone fully participating. While the individuals representing the various stakeholders may have different views on what the future should look like, I have been really impressed by the everyone’s ability to work together to recommend solutions that will be in the best interest of all the stakeholders. This is important as it is inevitable that An Post, the IPU and individual postmasters will have to change the way business is done to reflect market changes and the new post office customer.

After spending the first couple of meetings getting up to speed on the network and how it operates, the Group decided that the future of the Post Office will be best secured in the following areas:

1. Financial Services, including basic banking for the unbanked;
2. Government Services;
3. Social Capital and Enterprise;
4. White Labelling of Financial and other Products.

The Group has established sub-groups for each of the four categories, and has identified significant opportunities. The Group is now moving to a new phase where the feasibility and viability of each new proposed product or service will be evaluated before it will be included in the final report.

There is a real challenge to come up with an outcome that will suit all the stakeholders in the Group – the fact that 66% of post office activity is in 300 of the 1,140 post offices is telling. Ultimately, we have to capitalise on the resources of An Post and the national post office network in order to deliver products & services to their customers in a cost effective and efficient way. For this reason, it is clear to me that the Post Office will need to provide a basic payment account, as well as other financial products. The idea of being a government hub for services such as motor tax payments, passports, driver’s licenses and Personal Identification Services are all initial recommendations contained later in the report. Ultimately, consumers will be the ones that dictate the role for the Post Offices in Ireland – the Group’s job will be to help make the commercial offering to the public as attractive as possible.

There has been much discussion about the role of the Post Office in rural Ireland and the part it can play in stimulating economic development, potentially through involvement in schemes such as the national broadband rollout or the Wild Atlantic Way. Social enterprise is important but may not be profitable or cost-effective for An Post. However, the group will examine the cost of all proposed products and services, the societal benefit of which the Government may choose to consider.

Once the suite of products and services is finalised, we may consider an appropriate grading system for post offices, starting with ones located in major urban locations and working down to a more basic service offered in the most outlying rural locations.

The future of the Post Office network should involve closer collaboration with organisations such as the credit unions - I have separately met the Irish League of Credit Unions and the Credit Union Development Association and strongly believe there are obvious synergies that could benefit both organisations.

This report is deliberately brief and should be seen as a status report on progress achieved to date, as the relatively short time that the Group has had has been spent on identifying the areas that the Group will focus on over the coming months. This has been a necessary journey and one that I hope will stand us in good stead as we work towards producing a final report later this year.

Bobby Kerr  
May 2015

## Chapter 1: The Post Office Network

An Post is a commercial state company which runs the Irish postal system. There are two main elements to this system - the “mails” business which involves the collection, sorting and delivery of letters and other postal items and the “retail” business which involves postal and other counter-based financial services provided via the Post Office network. The two elements are intertwined, e.g. post offices act as mail collection and parcel pick-up points, while retail business helps the viability of the Post Offices.

In most countries the postal system is a public utility with much of the Post Office network being contracted to independent providers. Ireland’s postal system follows this international model whereby An Post operates the mail business and major post offices, while the majority of post offices are contracted to contractors which are typically, but not always, located in shops.

An Post is one of Ireland’s largest indigenous commercial enterprises, both in terms of turnover and employment. In 2014, An Post had a turnover of €820m with over 14,000 people employed across the postal system, including employees of An Post and contracted Post Offices.

An Post currently manages the administration of in excess of 2 million State Savings accounts on behalf of the National Treasury Management Agency, whilst ensuring over 700,000 customers receive their weekly Department of Social Protection (DSP) payments in Post Offices, with another 220,000 receiving monthly payments such as child benefit.

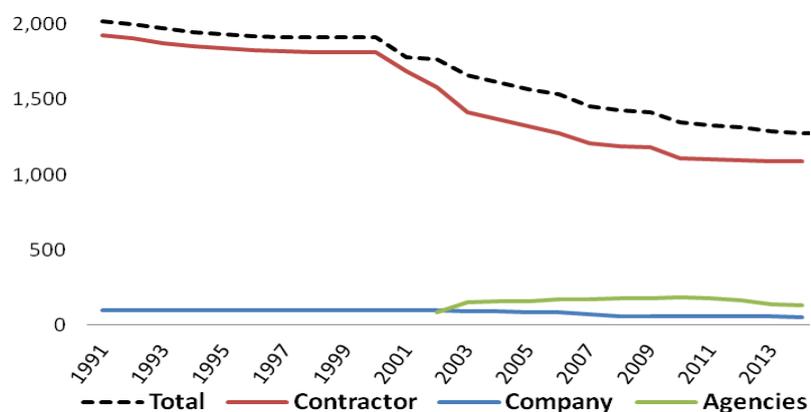
### Number of Post Offices

An Post’s retail networks are the largest network in the country with 1,140 Post Offices, 132 postal agents and almost 2,000 retailers who form the PostPoint network<sup>1</sup>. The network employs over 4,000 people, most of which are in offices operated by postmasters who provide employment, facilitate economic activity and act as hubs for community engagement. Post offices serve 1.7 million customers every week and were voted Ireland’s most trusted consumer brand in 2014.

---

<sup>1</sup> PostPoint is an electronic transaction and payment service channel that allows consumer to pay bills, phone top ups etc.

**Graph 1: Number of Post Offices & Postal Agencies (1991-2014)<sup>2</sup>**



The Post Office network is widely dispersed, serving urban and rural communities across Ireland – often where no other public or financial service is present.

The principal services provided through the Post Office network are:

- The processing of payments for the Department of Social Protection;
- Handling the full operation of the State Savings products for the NTMA;
- Billpay transactions for electricity, gas, telephone, waste etc;
- Collection of licences on behalf of a wide number of public bodies including TV Licences and An Garda Síochána;
- Money transmission services;
- Agency banking transactions on behalf of retail banks;
- Foreign exchange services;
- Selling and acceptance of postal services; and
- Other retail products such as gift vouchers, mobile top ups, Passport Express, iTunes vouchers.

### Post Office Distribution

Despite Ireland's low population density in rural counties, post offices are within a relatively manageable reach of the vast majority of households. Indeed, around 93% of the population lives within 5 kilometres of a post office and nearly 99.9% of the population live within 10 kilometres.

There is however a wide range in the level of activities amongst post offices across the country. Table 1 below demonstrates the average amount of transactions that a post office will make annually in a given county. The disparity in activity is noticeable in post offices such as Roscommon and Leitrim that do 25% of the amount of business that is conducted in Dublin.

<sup>2</sup> Source: An Post

The level of transactions that a post office will make is strongly correlated with the county's population density. This is intuitive as it implies that the Post Offices that serve small populations are also the ones that conduct the least amount of business.

**Table 1: Post Office Transactions by County<sup>3</sup>**

County	Number Post Offices	Population per Post Office	Number Transactions 2014	Average Number Transactions per PO
Dublin	150	8,487	34,944,717	232,965
Kildare	29	7,252	4,636,425	159,877
Wicklow	27	5,061	3,567,118	132,115
Laois	16	5,035	2,084,723	130,295
Louth	25	4,916	3,882,533	155,301
Meath	39	4,721	4,403,820	112,918
Kilkenny	24	3,976	2,655,519	110,647
Waterford	29	3,924	4,054,309	139,804
Carlow	14	3,901	1,731,471	123,677
Cork	139	3,734	15,461,713	111,235
Tipperary	44	3,608	5,020,123	114,094
Monaghan	17	3,558	1,568,734	92,278
Westmeath	25	3,447	2,714,590	108,584
Limerick	56	3,425	6,089,380	108,739
Offaly	24	3,195	2,169,357	90,390
Clare	39	3,005	3,272,652	83,914
Galway	87	2,881	7,423,559	85,328
Wexford	51	2,849	4,761,500	93,363
Cavan	26	2,815	2,171,755	83,529
Longford	14	2,786	1,187,351	84,811
Sligo	25	2,616	1,978,981	79,159
Kerry	58	2,509	4,453,284	76,781
Roscommon	26	2,464	1,525,367	58,668
Mayo	62	2,107	4,313,725	69,576
Donegal	77	2,093	5,385,607	69,943
Leitrim	17	1,870	1,008,559	59,327
<b>Total</b>	<b>1,140</b>	<b>4,025</b>	<b>132,466,872</b>	<b>2,767,318</b>

### Post Office Business Analysis

An Post categorise all post offices into 11 different groupings depending on their transactional size, with the largest 100 offices belonging to category 1 and the second

<sup>3</sup> All tables are based on An Post data

largest 100 offices belonging to category 2 and so on. The amount of business for each of the 11 categories is outlined in Table 2 below.

**Table2: Post Offices Business by Size of Office 2014**

Category	Number Offices	Cumulative Number of Offices	Number of transactions per category	Cumulative Number Trans	% Offices	% Business
Category 1	100	100	44,394,520	44,394,520	8.8%	33.5%
Category 2	100	200	25,099,683	69,494,203	17.5%	52.5%
Category 3	100	300	17,972,639	87,466,842	26.3%	66.0%
Category 4	100	400	12,983,743	100,450,585	35.1%	75.8%
Category 5	100	500	9,385,274	109,835,859	43.9%	82.9%
Category 6	100	600	6,845,866	116,681,725	52.6%	88.1%
Category 7	100	700	5,141,711	121,823,436	61.4%	92.0%
Category 8	100	800	3,892,087	125,715,523	70.2%	94.9%
Category 9	100	900	3,009,805	128,725,328	78.9%	97.2%
Category 10	100	1,000	2,227,570	130,952,898	87.7%	98.9%
Category 11	140	1,140	1,513,974	132,466,872	100.0%	100.0%

What is noticeable from Table 2 above is the uneven distribution of business activity amongst Post Offices. The largest 17% of post offices conducted over half of all transactions, whereas the smallest 48% of post offices only conducted 12%. This is not surprising given the geographical coverage of post offices in rural areas of the country. The fact is that these offices have access to far lower levels of population and therefore far lower levels of business opportunity. Consideration may need to be given to a different business model for the very small offices, such as reduced services (for cost reasons of providing those services), reduced opening hours, etc.

Despite the considerable differences in the number of transactions conducted, post offices are somewhat uniform in the distribution of their activity. For the majority of post offices the three most popular services are mails, DSP services and Billpay which on average account for around 85% of all transactions. DSP payments account for around a third of transactions in all categories of post offices. There is some slight variation however, with mails being more popular in some of the smaller post offices than the large ones. In contrast, Billpay appears to be relatively more popular in large post offices than in small ones (noting the lower number of weekly transactions in smaller post offices). The breakdown of business activity is illustrated in Table 3 below.

**Table 3: Analysis of 2014 Post Office Business Activity**

	Average Weekly Number of Transactions	Mails	DSP Payments	Billpay	Savings/ Banking	Money Transmission	Other
Category 1	8,537	35.1%	31.3%	18.0%	6.4%	2.5%	6.6%
Category 2	4,827	33.3%	33.0%	19.9%	7.2%	2.2%	4.4%
Category 3	3,456	34.3%	32.1%	19.2%	8.5%	2.2%	3.7%
Category 4	2,497	36.4%	32.2%	17.7%	8.3%	1.9%	3.5%
Category 5	1,805	38.7%	30.5%	15.6%	10.1%	1.8%	3.3%
Category 6	1,317	38.3%	30.7%	15.1%	10.7%	1.8%	3.4%
Category 7	989	36.8%	32.1%	14.9%	11.3%	1.5%	3.5%
Category 8	748	36.6%	31.0%	14.6%	12.1%	1.4%	4.2%
Category 9	579	37.0%	31.6%	13.9%	11.3%	1.4%	4.9%
Category 10	428	39.4%	30.6%	12.8%	10.8%	1.4%	4.9%
Category 11	208	39.4%	32.9%	11.7%	9.0%	1.3%	5.7%
Total	2,235	35.5%	31.8%	17.7%	8.1%	2.1%	4.8%

Postmasters are not paid equally for all activities as payments are made relative to the value of each transaction, as well as the level of effort and time required to undertake the activity. For example, a postmaster would receive more payment for a DSP transaction than for the sale of a postage stamp. Table 4 below shows an analysis of actual payments to postmasters in 2014.

**Table 4: Contribution of Post Office products by Revenue in 2014**

Business Activity	% of Business Activities
<b>Mails</b>	26.7%
<b>DSP Payments</b>	35.1%
<b>Billpay</b>	14.9%
<b>Savings / Banking</b>	13.1%
<b>Money Transmission</b>	4.0%
<b>Other Trans</b>	6.1%
<b>Total</b>	<b>100.0%</b>

Table 4 above illustrates the reliance of postmasters on mails, DSP payments and bill payments. It is important to note that DSP clients perform much of the non-DSP activity such as bill payments while they are collecting their welfare entitlements.

Despite the similarity in the distribution of services provided amongst post offices, their remuneration is not uniform. The postmasters' payment system is designed to fund the network in its entirety, therefore higher activity offices subsidise the smaller offices. For example, payments to postmasters can vary by a factor of 10 between a busy office to an office with very low activity. This level of variance would apply to most activities.

There is a valid question to be asked as to whether this payment model remains appropriate, particularly as it was designed over 100 years ago and stands alone amongst similar businesses. The net effect of this model is that economic post offices subsidise uneconomic post offices and while that may benefit Irish society, it ultimately penalises some postmasters.

The system was designed in order to provide cross subsidisation from large offices to the smaller ones as the level of income generated in the lower activity offices would not come close to meeting their costs incurred. It is also fair to say that if uniform payment levels for all activities were made to each office, then the level of payments to postmasters in less busy post offices would not result in an income sufficient to keep the outlet open. In the design of any new payment system, consideration would have to be given to the level of geographical coverage required and the best manner of paying for a defined level of coverage.

Despite the redistributive cost mechanism, the payments due to contractors vary considerably depending on what category they belong to. Table 5 below illustrates how post offices with higher levels of activity receive greater levels of remuneration than those that record lower volumes. However, it is important to note that out of these payments postmasters must provide premises, staff, insurance, income tax, rates and all other costs associated with running the business.

**Table 5: Average Payments to Postmasters (before costs) in 2014**

Category	Average payments to postmasters	Maximum payments to postmasters	Minimum payments to postmasters
<b>Category 1</b>	179,901	253,054	159,438
<b>Category 2</b>	142,724	175,634	110,139
<b>Category 3</b>	116,526	141,938	95,952
<b>Category 4</b>	91,832	139,432	72,365
<b>Category 5</b>	73,968	95,770	50,408
<b>Category 6</b>	60,224	96,459	25,149
<b>Category 7</b>	50,025	65,176	10,648
<b>Category 8</b>	42,628	73,329	29,772
<b>Category 9</b>	36,522	53,360	27,796
<b>Category 10</b>	29,968	49,627	16,871
<b>Category 11</b>	16,948	31,101	11,363
<b>Total</b>	<b>68,796</b>	<b>253,054</b>	<b>11,363</b>

Note: The above excludes the cost of company PRSI contribution and Gratuity provision

Notwithstanding the large scale in the variation of what the average postmaster receives, total payments to postmasters have remained largely stable over the period 2007 to 2014. However, when taken in the context of a 13% reduction in the number of offices over the same period average payments to postmasters have increased by 17%. See Table 6 below.

**Table 6: Gross Payments to Postmasters**

Year	Total Payments (€M)	PRSI (€M)	Total incl PRSI (€M)	% Increase/Decrease
<b>2007</b>	72,766	4,923	77,689	
<b>2008</b>	70,110	4,607	74,716	-3.83%
<b>2009</b>	73,831	4,656	78,487	5.05%
<b>2010</b>	74,650	4,735	79,386	1.14%
<b>2011</b>	74,427	4,734	79,161	-0.28%
<b>2012</b>	74,614	4,566	79,180	0.02%
<b>2013</b>	75,281	4,549	79,830	0.82%
<b>2014</b>	74,545	4,077	78,622	-1.5%

There has been a relatively small increase in gross payments to postmasters over the period 2007 - 2014 when compared with the increase in the number unemployed, see Table 7

below. This may suggest that the increase in income associated with DSP-related payments has been offset by reductions in activity elsewhere, such as in mails where transactions have reduced in line with the loss of business to electronic substitution. However, the nature of the scaled payment model in place makes it difficult to draw any firm conclusions without further analysis.

**Table 7: Unemployed Persons 2007 - 2013<sup>4</sup>**

Year	Total Unemployed	% Increase/Decrease
2007	107,500	
2008	131,000	21.86%
2009	275,000	109.92%
2010	305,100	10.95%
2011	317,400	4.03%
2012	323,000	1.76%
2013	300,700	-6.90%

The distribution of activity in post offices has changed over the last number of years with increases in DSP payments and bill payments alongside new services such as foreign exchange and banking services being introduced. While new business lines are welcome, the level of income generated by such activities is low relative to the large income streams from key Government contracts such as DSP and NTMA.

#### **Co-Location**

Co-location can be a key aspect of post office viability, with 52% of post offices co-located with other retail operations. These vary from being in a large Spar/Centra/Supervalu locations to small retail convenience stores in rural locations. The payments listed in Table 6 do not include any benefit to the retail operation in a co-location. Furthermore, it is impossible to place a precise estimate the benefit to the Post Office of co-location; suffice to say that retailers have always found it beneficial to have a post office in or next to their retail locations. In many cases postmasters have achieved very beneficial rental agreements due to this perceived benefit.

---

<sup>4</sup> Source: CSO figures

## Chapter 2: The Challenges Facing the Post Office Network

The Post Office network has been a feature of Irish economic and social fabric for more than 300 years. Across every town and village in Ireland the An Post brand is recognised. Yet, as society is evolving at an increasingly accelerated pace, customer behaviours and attitudes continue to change with a greater focus on lifestyle and convenience. The movement to online platforms continues to gain momentum and services such as banking, shopping and access to government services are reaching unprecedented levels. These trends are impacting retail strategies globally, while locally there is a reduction in retail branches for financial institutions, consolidation of retail footprint across major retailers and an increasing number of “destination” shopping outlets at the edges of towns and cities. Given the new retail reality, how does the postal network remain relevant?

### Role of the Post Office Network

The Post Office network is hugely important for Irish society and its economic infrastructure for a number of reasons. Firstly, with the banks withdrawing from many towns, the last remaining business bringing cash into towns and villages is the Post Office: Without this service, people living in rural Ireland would have little or no access to cash, particularly the elderly and the vulnerable. In many rural locations there is no access to ATM’s. The services provided by the Post Office network enable many people who may be on limited or fixed incomes to budget their expenditure and plan for future events. Given the age and income characterisation of their customers, this is a vital service and one that allows them to fully participate in modern society. Many customers of the Post Office have limited or no access to the internet, which restricts their ability to use online services and fully participate in the economy.

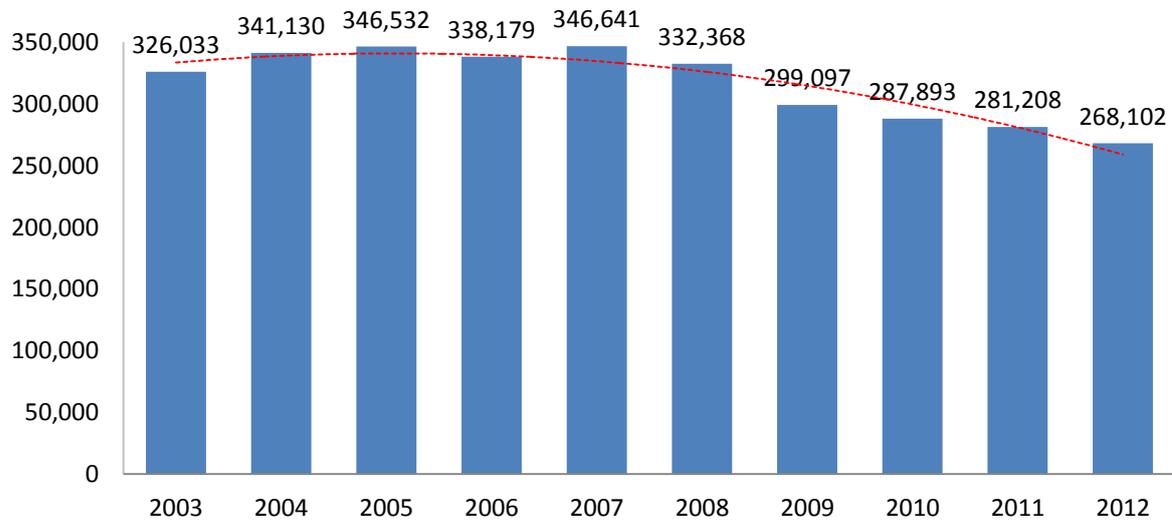
Much is made of the Post Office network making a social contribution to rural Ireland. It is widely recognised that the local post office is a place to meet and make contact with friends and neighbours, many of whom are elderly and may not have access to other services or come into frequent contact with other people. As a result, the local post office often becomes the hub for communities around which local life revolves. It is important to recognise the value that the Post Office network provides to rural Ireland in particular, and to place an economic value on this activity. Without a deeper understanding of their contribution, we may lose an important thread of the fabric of Irish society.

A feature of modern Ireland is that many towns and villages have been left without vital services as businesses have shut down and people have moved away. The Post Office can be the only source of information and advice in relation to Government or financial services. The Post Office provides an important infrastructure for local business to survive and grow by providing them with access to financial, postal and other services.

### Challenges and Risks facing An Post and the Network

Internationally, the postal sector is facing an uncertain future with mail volume decline prevalent in many jurisdictions. The following Graph demonstrates how mail volumes have declined internationally since 2007.

**Graph 2: International Annual Mail Volumes (millions)<sup>5</sup>**



In the face of changing consumer preferences, national postal operators have responded by pushing through structural changes, prices rises, innovation & evolution.

The challenges facing An Post can be summarised as following:

1. Continuing to manage the impact of the significant mail volume reduction.
2. Funding the Universal Service Obligation (USO).
3. Securing new revenue sources based on services/products offering higher value in both the mails and the Post Office business.
4. Maintenance of a sustainable post office network.

The mails business lies at the heart of An Post and remains the key driver of turnover, 63.5% in 2014. However, since 2005 mail volume has declined by more c.27% with projections expecting this to reach 43% by 2019.<sup>6</sup> The biggest challenge facing the postal sector is the substitution of conventional mail by electronic-based forms of communications such as email. This is a fundamental driver of changes in the level of mail volumes.<sup>7</sup>

Retail income is driven by two primary sources of business – the DSP social welfare contract and the NTMA contract. Taken together they make up more than 55% of the revenue to the Post Office network.

---

<sup>5</sup> Insert reference

<sup>6</sup> An Post (2015), An Post Annual Report 2014

<sup>7</sup> Copenhagen Economics (2014), The consumer impact of competition in the UK postal market. A study prepared for Whistl.

### **Department of Social Protection Contract**

Following a competitive tender process run by the DSP in 2013, An Post was selected as the provider of over the counter cash services for social welfare clients. The term of the DSP contract is for a minimum period of 2 years, which DSP may extend by one or more periods of 12 months each, up to 6 years in aggregate. Revenue from DSP to An Post was €55m in 2014 and €58m in 2013.

In the Tender documents for the DSP cash business, each party tendering for the business had to commit to assist DSP in the migration of customers to electronic payments. DSP estimated that cash payments in 2013 would reduce from 51% of welfare payments in 2013 to 3% of payments in 2017. Over the same period, EFT payments were anticipated to move from 42% to 75%, cheque payments from 7% to zero and a new electronic payment method to account for 22% of payments. It was anticipated that the new electronic payment would be the subject of a new tendering process. No such tender has yet issued. However, it is understood that the DSP intend to continue to focus their attention on increasing levels to EFT client accounts.

The total number of welfare transactions is approximately 85 million per annum. The An Post share of DSP transactions through the cash payment channel is currently c. 47%. The DSP contract is the single most important contract that An Post has. Not only is it important for the level of direct business that it generates to the company, it also acts a gateway to further transactions undertaken by customers; it is common for DSP clients to undertake other transactions such as Billpay, mobile top up, purchase of TV and savings stamps.

The dependence of the Post Office network on the DSP revenue stream has been critical to the sustainability of the network in recent years. An inevitable adverse impact on the network will increase as the rate of e-substitution increases. Therefore, there is a strong imperative for An Post and the Network to innovate around new products and services. It must however be recognised that it is very unlikely that income streams of the magnitude of the current DSP contract are achievable for new businesses/services. There is also a danger that reductions in DSP payments through post offices could lead to many Postmasters exiting the business, which could result in less Post Offices per head of population.

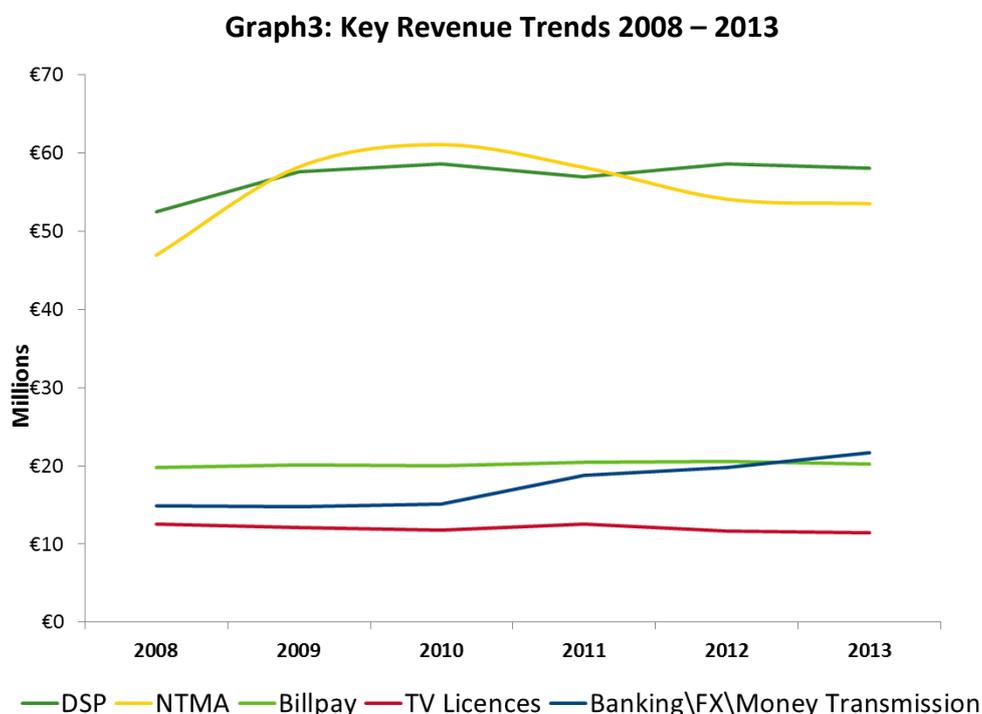
The 2013 DSP target of having 3% cash payments and 22% e-payments by 2017/8 would devastate the Post Office network without alternative products and services, such as an epayment account suitable for DSP customers, put in place by An Post, leaving communities without access to vital services.

### **National Treasury Management Agency Contract**

An Post manages the administration of in excess of 2 million State Savings customer accounts on behalf of the National Treasury Management Agency. Collectively, this fund, including prize bonds, is worth over €19 billion and generates revenue to An Post of approximately €53m annually. The contract is currently being renegotiated.

## New Services

An Post has expanded the product range of services at post offices over the last number of years. Graph 3 below illustrates the major revenue trends for the Post Office sector over a six year period to 2013.



Services now include:

- Banking on behalf of AIB, Danske Bank and Ulster Bank;
- Money transmission: Postal Money Orders, Western Union, Sterling Drafts, Foreign Exchange (cash and cards);
- Bill payment on behalf of more than 200 utilities, local authorities, etc; and
- Others, such as gift vouchers, mobile phone top-ups, passports, tv licences, Garda fines.

While it is positive that An Post has increased the number of products offered at post offices, the magnitude of these revenues is low relative to the key Government contracts.

## Changing work/life patterns

It is clear to everyone that society is changing; customer behaviours are changing and with that comes the need for the Post Office offering to be repositioned to be as attractive as possible to consumers. Ultimately it will be customers that make the final decision on the future viability of the Post Office network. The collective challenge of the Business Development Group will be to ensure that the product and service offering is as attractive as possible to Irish consumers.

## Chapter 3: The Post Office Business Development Group

The Business Development Group was established by Minister Alex White in January of this year on foot of a review by the Cabinet Committee on Social Policy to explore potential commercial opportunities available to the Post Office network. The Group is expected to engage with a variety of stakeholders, including those in the public sector, commercial bodies, post office customers and other interested parties.

The Group's membership is drawn from the Irish Postmasters Union (IPU), An Post, the Department of Arts, Heritage and Gaeltacht Affairs, the Department of the Environment, Community and Local Government and the Department of Communications, Energy and Natural Resources (see Appendix 1).

The Terms of Reference for the Group are to:

- examine the potential from existing and new Government and commercial business that could be transacted through the Post Office network;
- identify the new business opportunities for the Post Office network, taking account of international experience;
- engage as necessary with the public sector, commercial bodies and other interested parties in pursuit of the above objectives; and
- prepare an interim and final report for the Minister in accordance with an agreed timetable.

### Work to Date

The starting point for the Group is that we want to see all post offices remain open, in line with the Programme for Government commitment. However, it should be recognised that the final report may come to a different conclusion – the economic reality of non-co-located rural post offices may be impossible to ignore without external subvention or substantial changes to the business model.

The Group has met on four occasions, with meetings taking place monthly. The initial focus of the meetings was to better understand the network and the disparities between the various types of post office. This is important because without a clear understanding of the different types and capabilities of post offices it will be impossible to identify new products and services that meet the needs of customers, but also match the skills and capabilities of post offices. As can be seen from Chapter 1, post offices vary considerably in terms of the number of transactions that they undertake, which has important ramifications for identifying appropriate new products and services that fit with the network.

The Chair invited both the IPU and An Post to make presentations on their views of the Network, areas of opportunity and ideas for future action. This led onto a diverse range of opportunities and their potential being explored and assessed, which ultimately led to the following four areas being identified for future action:

1. Financial Services;
2. Government Services;
3. White Labelling products; and
4. Social Capital and Enterprise.

In order to progress these opportunities, the Group has established four working groups, each of which is being chaired by a different organisation with the aim of identifying viable options to take forward over the coming months. This work is discussed in greater detail in the following chapter.

## Engagement

The Group agreed at the outset that it had to be open to new ideas. As part of this process the Chair has met with organisations and individuals that have, or the potential to have, a role to play in the future viability of the Network. To date the Chair or the Secretariat has met with the following organisations<sup>8</sup>:

- Credit Union Development Association;
- Department of Finance;
- Department of Social Protection;
- IPU members at Annual Conference;
- Irish League of Credit Unions;
- National Broadband Plan Programme Manager;
- Payzone; and
- Permanent TSB.

The IPU also canvassed their members seeking input and ideas, which formed the basis of a presentation to the Group.

Although a formal engagement process hasn't been run at this point, a number of people and organisations, including councils and political representatives have written in to the Group, the contents of which have been assessed by the Chair. The intention is to give people an opportunity to participate by publishing the initial report and seeking input on the four workstreams being pursued by the Group. It is envisaged that this activity will take place from June to July 2015, with the results feeding back into the Group ahead of it preparing the final report in September 2015.

## Future Work

The deliberations to date have identified the need for solutions to fit the network. Clearly, the products and services that are appropriate in larger post offices may not be suitable for a small, rural post office. The job of the Group will be to identify appropriate opportunities, categories and retail models for post offices, where new products and services can be matched with demand.

---

<sup>8</sup> A number of retail and financial specialists were also met.

In order to support the work of the various workstreams, technical expertise will be brought on board. The technical experts will help validate emerging proposals, identify barriers to implementation and assist in the development of appropriate execution strategies.

## Chapter 4: Areas of Opportunity

The four areas of opportunity identified by the Group have followed substantive discussion amongst Group members. At this juncture, the four workstreams represent the best opportunity for An Post and the network to develop a more sustainable business model. However, it is important to state that following more detailed analysis over the next four months, some of these areas of opportunity may not be pursued further.

### Financial Services

Financial services have been recognised by all Group members as fundamental to the future viability of the Post Office network. Across Europe and further afield there are numerous examples of post offices offering financial services, ranging from full service banking to account transaction processing. At this point, the Group sees a major opportunity to drive the Government's Strategy for Financial Inclusion.

An Post currently provides a significant range of financial services through the Post Office network and other channels:

- Welfare cash payments on behalf of DSP;
- Cashing of DSP cheques on behalf of BOI;
- State Savings Services on behalf of NTMA;
- Bill Payment services on behalf of over 200 utilities/local authorities/charities, etc;
- Postal Money Orders;
- Western Union Transfers;
- Sterling Drafts;
- Banking Services on behalf of AIB, Danske Bank and Ulster Bank ;
- Foreign Exchange – cash and cards; and
- An Post Corporate Deposits business.

The central questions for this workstream are what other sustainable financial services are suitable to be offered by the Post Office network, and in what timescale.

### Payment Account

An Post is working towards being in a position to launch a fully functioning payment account that would include:

- Debit Card;
- Full access to ATM and point of sale worldwide;
- Standing orders and direct debits;
- Jam jars to facilitate budgeting; and
- Internet, phone and App based banking.

The Post Office payment account could play a central role in delivering on the key strategies of Financial Inclusion, retaining the post office network and reducing the cash in circulation. As the provision of such an account will represent an incremental cost (on top of the cost of

the Post Office network) a workable business model needs to be developed. Assuming relevant agreements can be reached, An Post believe that this account could be rolled out in quarter 1 2016.

### **Micro Credit**

Using the budgeting tools available in the payment account, An Post is confident that it can support a micro credit solution. Making affordable loans available, potentially through a partnership between An Post and Credit Unions, to the marginalised in society could offer significant economic and social dividends.

### **General Insurance**

One Direct, which is a subsidiary of An Post, offers a range of motor and home insurance. A major opportunity exists to deliver incremental sales (and postmaster income) by better integrating the sales and referral process into the network. A number of opportunities, such as “quick quotes” and enhanced lead generation have been identified as potentially offering a considerable opportunity to the network.

### **Drivers for Change (and the consequences of inaction)**

There are a number of developments driving the move to an automated financial services transaction processing model:

- The standard use of SEPA payments across Europe and Ireland – retail payments are now standardised across Europe and Ireland with widespread access in Ireland among all financial services institutions;
- The growing customer adoption of electronic and card payments in favour of cheques and cash – customers now require both electronic and card payment capability to perform basic financial transactions;
- Retailers and utilities are now demanding electronic and/or card payments for purchasing goods and services;
- The increasing use of the Internet and mobile technology channel for purchasing goods and services and managing customer’s financial needs;
- The National Payments Plan has identified that the efficiency of Ireland’s payments infrastructure could be improved by changing behaviour to make more use of secure and efficient electronic payments methods.

Since An Post and the Post Office network’s operations concentrates significantly in the cash transaction environment the option of not addressing these developments could relegate An Post and post offices to the least valuable end of the financial services value chain, where technology and payment developments marginalise the role of An Post.

In addressing these developments An Post need to develop a sustainable fit for purpose account with full electronic payments capability. The core components of this capability are:

- Money transmission account – at a basic level this is an account where customers can process electronic payments;

- Payments services – An Post will require the capability to satisfy the basic payment requirements of a money transmission account. Key payment products should be:
  - Electronic funds transfer (SEPA Credit Transfers) – facilitates electronic payments in and out of the money transmission account e.g. payroll, welfare payments, electronic credits etc.
  - Standing orders – provides the capability to make recurring payments e.g. savings accounts, subscriptions, charities.
  - Direct debits – provides the capability to make regular payments e.g. utility payments, loan repayments.
  - Card payments – provides the capability to deliver access to ATMs, point of sale and Internet payments.

Delivering these services can leverage the extensive An Post network. Key considerations in this context are the services provided through the An Post physical channel. The delivery of an electronic money transmission account provides the opportunity to offer additional complimentary services:

- Cash and cheques lodgement to An Post money transmission accounts, which An Post has a considerable competitor advantage in given the reach of the network.
- Foreign exchange currency – provides opportunity to leverage and increase the current product offered by An Post.
- Account opening for An Post money transmission accounts – currently one of the major obstacles to some financial service entrants into the market is the opening of accounts remotely. The network provides a physical channel to validate account opening requirements e.g. Criminal Justice Act and ‘know your customer’.
- Cross-sell An Post ‘white label products’ – providing a more comprehensive range of transaction services above provides An Post with more recognised positioning to exploit the selling of ‘white label’ products such as Insurance or loan products.
- The Post Office network remains a significant infrastructure asset for the promotion of financial inclusion amongst the general population and, in particular, the DSP client base. The network provides nationwide access to financial services for all citizens within a reasonable distance, particularly in locations where no other financial institutions are near. The challenge is to find a sustainable business model which works for Government, An Post and the Postmasters.

### Government Services

The Government Services sub-group has been established to identify a set of government products and services that could be delivered by the Post Office. This sub-group is led by the IPU.

The Post Office has 1,140 outlets across Ireland, many of which are located in rural locations. As banks and other institutions move further away from smaller towns and villages, the Post Office often is the last remaining commercial entity. In order to arrest the decline of rural Ireland, and bring Government closer to the people, the opportunity exists for a suite of

Government services to be provided by post offices. This approach would enable those who may be/feel disenfranchised through a lack of internet access, mobility or who may struggle with bureaucracy to more actively participate in the economy.

A report by Grant Thornton, commissioned by the IPU, suggested that savings of €63 million over five years could be released by providing motor tax renewal at post offices. While there are obvious contractual, procurement and state aid implications, the concept of providing greater physical access to services is with merit. The sub-group will establish a list of potential services that could be offered, including but not limited to:

- Motor tax;
- Electoral Register;
- HSE Payments;
- Local Authority payments; and
- CAO and Department of Education Examination Fees.

Once a list of potential services has been identified, the sub-group will engage with the relevant Government Departments and Agencies to establish what legal or other challenges, if any, would preclude a trial or wider rollout. Following detailed analysis, the sub-group will identify a suite of services that could be offered alongside suitable mechanisms for implementation, such as trials or pilots.

It is worth noting that in some jurisdictions, such as the UK<sup>9</sup>, it is Government policy to provide scope for the measurement of social value and coverage as part of evaluating responses to public service tenders. It is the view of the Group that a similar approach should be adopted in Ireland.

### Social Capital and Enterprise

The Post Office is a defining feature of rural Irish towns and villages. It serves as a valuable hub for communication and interaction in local communities. In this regard, the local post office has social capital that is essential for rural sustainability. The challenge for the Group is to examine ways that this social capital can be developed to support economic sustainability and development in rural Ireland. The Group feels that the Post Office network can play a role as a hub for the development of social enterprise by facilitating communication, service delivery and cash transactions at local level. The Group will examine further the potential for the Post Office network to facilitate rural entrepreneurship and especially rural social enterprise.

As a major commercial State organisation that comes under the auspices of the Official Languages Act 2003, the capacity to offer services in the Irish language is an important consideration for An Post. Many of the services provided by An Post are already being delivered bilingually in accordance with the provisions of the Act. It is important to maintain

---

<sup>9</sup> The Public Services (Social Value) Act 2012

this level of bilingual service, and in the case of the network of Gaeltacht post offices, to ensure that appropriate arrangements are in place for the provision of a full range of services in Irish for Gaeltacht communities.

If a value can be placed on the Post Office network and the services that it provides then a deeper understanding can emerge around the contribution that it plays in modern Irish society. Furthermore, the Post Office may have a valuable role to play in contributing to the economic development of rural Ireland through the provision of services and advice.

This work stream will need to identify if there is merit in this idea through engaging with key rural and community stakeholders throughout Ireland with a view to gathering suggestions on how post offices can contribute value to their community. The Commission on the Economic Development of Rural Areas (CEDRA) has completed work in this area, which is complemented by an Inter-Departmental Group on Rural Affairs that is chaired by Minister Phelan. The workstream will look to build upon this existing knowledge base to identify proposals.

Where possible, exercises to cost any emerging proposals will be conducted and their feasibility will be ranked. Furthermore, where possible, initiatives will be linked to rural spatial strategies and other Government goals.

### White Labelling

White labelling is the practice of selling products and services from one company under a different brand, for example the mobile telephony sector is characterised with multiple retailers selling minutes, messages or data on larger networks, such as Vodafone or 3. It is a long established approach and one that An Post itself utilises in respect of *postfone*.

White labelling represents an obvious opportunity to An Post and the network, assuming that the products and services that are identified are closely aligned to the An Post brand, which is closely guarded given its status in the minds of Irish consumers. These can be used to drive footfall to post offices, where other services can be cross-sold.

Having renegotiated its mobile virtual network operator agreement with Vodafone, An Post will re-launch its mobile phone offering as Post Mobile in June of this year. Post Mobile will offer competitive pre-pay call and data bundles. They will also be supporting the re-launch with an advertising campaign designed to drive traffic to the Post Office. In maximising this opportunity it will hopefully unlock the potential for other white labelling opportunities in the telecommunications sector.

The role of the sub-group will be to establish a suite of products for sale within the Post Office Group that can be branded, marketed and sold as “An Post products” but where the actual product or service is provided by a 3rd party. Our initial thinking suggests that there are a number of financial services that may align with the provision of a basic banking services and could compliment the future direction of the company. The challenge for the sub-group will be to identify a suite of products and services that are appropriate to the Post Office brand and network, recognising that the intention will be to categorise post offices so

that the right products and services are matched with the right type of post office – not everything will be suitable everywhere.

A feature of such products and services is that it is common for providers to have a full operational infrastructure in place, which only needs to be integrated or connected to, typically via a secure web browser. This reduces overheads and makes the cost of integration with the existing suite of An Post products and services low. The opportunity for An Post is to leverage their existing brand and infrastructure to deliver greater transactions and profit.

The white labelling of products may require some retraining amongst postmasters but it should be possible from within existing resources. The challenge set for the White Labelling sub-group is as follows:

1. Only work with best in class 3rd party providers.
2. Products sold can be comfortably executed by staff in post offices.
3. Limited range, but must be profitable for An Post.

## Chapter 5: Findings and Next Steps

This initial report has set out some basic facts around the Post Office network, as well as the challenges facing it. Chapters 3 and 4 discuss the work of the Group and how the four workstreams that are being pursued, each chaired by a different organisation. While it is too early for any substantive findings to have emerged, the early reports from each of the workstreams are summarised below.

### Financial Services

The Group views it as essential that An Post develops increased capability in financial services. While the development of their payment account is hugely positive, there are additional products and services that have the potential to complement the existing, and future, product complement. As the main banks are withdrawing from rural Ireland, the opportunity exists for An Post to provide more financial services. While the company doesn't envision itself as a bank to rival the pillar banks, it could become a quasi-bank of local and rural Ireland by providing services in its own right and on behalf of other banks. A roadmap for the provision of financial services will be identified in the final report.

### Government Services

The Group believes that the idea of post offices providing an increased range of government services is logical and could greatly improve the level of services delivered to those living outside of urban areas.

The first task of the workstream will be to identify a comprehensive list of services that could be offered in post offices. Once a list of potential services has been identified, the sub-group will engage with the relevant Government Departments and Agencies to establish what legal or other challenges, if any, would preclude a trial or wider rollout.

### Social Capital and Enterprise

The Post Office is a defining feature of life in Irish rural towns and villages. It serves as a key social connection for these communities, with its sustainability important for the long-term social and economic prosperity of rural Ireland. This subgroup will endeavour to identify and cost ideas that are feasible and can enhance the role that post offices play in contributing to the economic development of rural Ireland.

### White Labelling

White labelling offers an obvious opportunity for An Post and the network, assuming that it is possible to identify a suite of products and services that are closely aligned to the An Post brand. Such products and services can be used to drive footfall to post offices, where other services can be cross-sold.

The Group considers that there may be an overlap with other areas of opportunity, an obvious example being financial services.

## Next Steps

The Group has identified the need to give the wider Post Office community the opportunity to input into the process. It is envisaged that a public consultation will take place from June to July 2015, with the results feeding back into the Group ahead of it presenting the final report to the Minister later this year.

The Group will seek to integrate the findings of the four workstreams and come up with a master list of new products and services which will have to be costed and examined in detail. This work will need to be followed by another workstream that will identify how postmasters and An Post will need to adapt/change in order to ensure the future sustainability of the network.

The Group will continue to work towards a September deadline for submitting the final report to the Minister. At this point it is envisaged that the report will be structured around three elements: the challenge facing the Post Office, the opportunities for business development and the necessary changes that need to be made by postmasters and An Post to ensure that the Post Office network can be sustained into the future.

Central to this process will be how the Group engages with third parties, such as banks, credit unions and others. External input and expertise will be essential to the viability and rigour of the proposals that emerge from the Group. The Chair is actively working to identify suitable candidates that can assist the various workstreams in their deliberations.

## Appendix 1: Membership of the Business Development Group

The working group is made up of the following:

Bobby Kerr	Chair
Joe McHugh T.D.	Minister of State for Gaeltacht Affairs
Anne Phelan T.D.	Minister of State with Special Responsibility for Rural Economic Development (represented by Liam Keane)
John Daly	An Post
Liam Sheehan	An Post
Ned O Hara	Irish Postmasters Union
Ciaran McEntee	Irish Postmasters union
Stjohn O Connor	Department of Communications, Energy & Natural resources
Niall Power	Secretariat, Department of Communications, Energy & Natural Resources