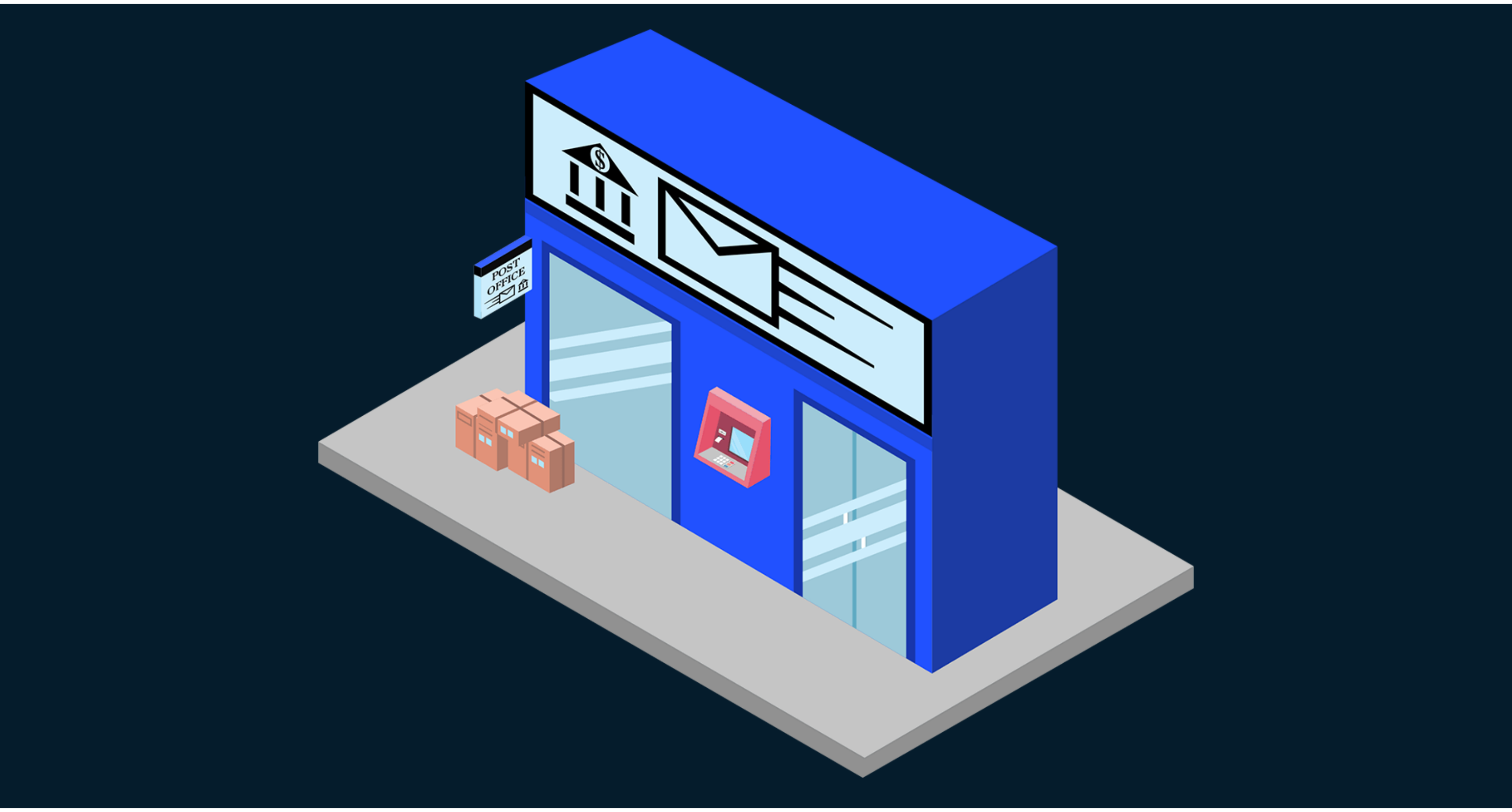
McKinsey & Company

Travel, Logistics & Infrastructure Practice

Making banks from branch networks: Why financial services are still a good idea for postal carriers and retailers

Postal carriers and retailers with vast distribution networks could leverage them and their deep customer relationships.

This article was a collaborative effort by Eszter Beretzky, Ludwig Hausmann, Nemanja Predojevic, Francisco Simao, and Michael Yee, representing views from McKinsey's Travel, Logistics & Infrastructure Practice.



© Irina Cheremisinova/Getty Images

July 2021

It may come as a surprise that postal carriers are among the industries hard hit by the pandemic. After all, with more of us shopping online, shouldn't they be delivering more parcels than ever? That may be true, but we're also sending less mail, and so far the rising number of delivery packages hasn't closed the gap. Many postal companies also have to fend off stiff competition from delivery start-ups.

What can postal companies do to protect their long-term viability as businesses? One possible solution—which has reaped dividends for many postal operators around the world—is turning post offices into banks. Postal carriers that haven't explored this option might want to consider entering the financial-services arena. Those that have already entered it could consider ways to double down on their efforts.

Some postal companies offer customers a bevy of financial services via omnichannel delivery by taking advantage of their vast branch networks, high foot traffic, and close relationships with communities. The physical branch provides in-person support for digital banking platforms. One benefit of this way of diversifying revenue streams is that a partnership with an established bank could make entry into the financial-services sector a relatively low-cost and low-risk investment for the postal company.

Although this article maps the financial-services opportunity from the perspective of postal operators, the lessons may also apply to companies in other sectors, such as retail. Such companies would have to share two key characteristics with postal carriers: control of a broad distribution network of physical outposts and deep customer relationships. Many postal branches double up as de facto one-stop shops: nearby residents make regular visits to send or pick up parcels, grab snacks, or stock up on household essentials. Such people are the target market for financial services. Other businesses that enjoy similarly sticky relationships may also consider making a similar play.

When is offering financial services a good idea?

Many postal operators (and other companies with large distribution networks and deep customer relationships) could turn their brick-and-mortar networks into chains of banking outposts. Three main factors will determine the range of financial-services opportunities.

Right to play

Postal companies access and serve customers at scale through vast branch networks. The higher the post-office-to-population ratio, the greater the right to play. Postal companies that operate all or most of their own branches have a deeper understanding of their customers because they are more likely to have big data about them. These operators should be better positioned to meet their customers' needs and have a greater right to play than companies with dense but fully outsourced networks. Postal carriers should also be known and trusted brands in their communities, with frequent human interaction, so they can leverage foot traffic and in-person interaction to springboard into the financial-services ecosystem.

Need to play

In many countries, postal companies have too few revenue streams and thus rely too much on letter mail. In 2020, postal carriers lost two to four years of mail volume: a COVID-19–induced acceleration of preexisting trends. The fast-shrinking pool of postal profits makes it more urgent for many postal companies to find new ways to generate value.

Attractiveness of the banking market

Postal companies could look at a banking market's size and profitability relative to that of the overall economy in a given country. Possible indicators of attractiveness include the banking sector's return on equity, the market concentration of financial services, and product penetration. Postal leaders could identify gaps in the market and meet underserved needs and segments by offering financial products that the incumbents don't.

The opportunity in financial services

In our analysis of 54 markets around the world, we found that over half of all postal carriers are well positioned to enter the financial-services market. The three factors previously described determine the range of opportunities. We've broken down the broad spectrum of possibilities into three tiers (exhibit).

Lands of opportunities

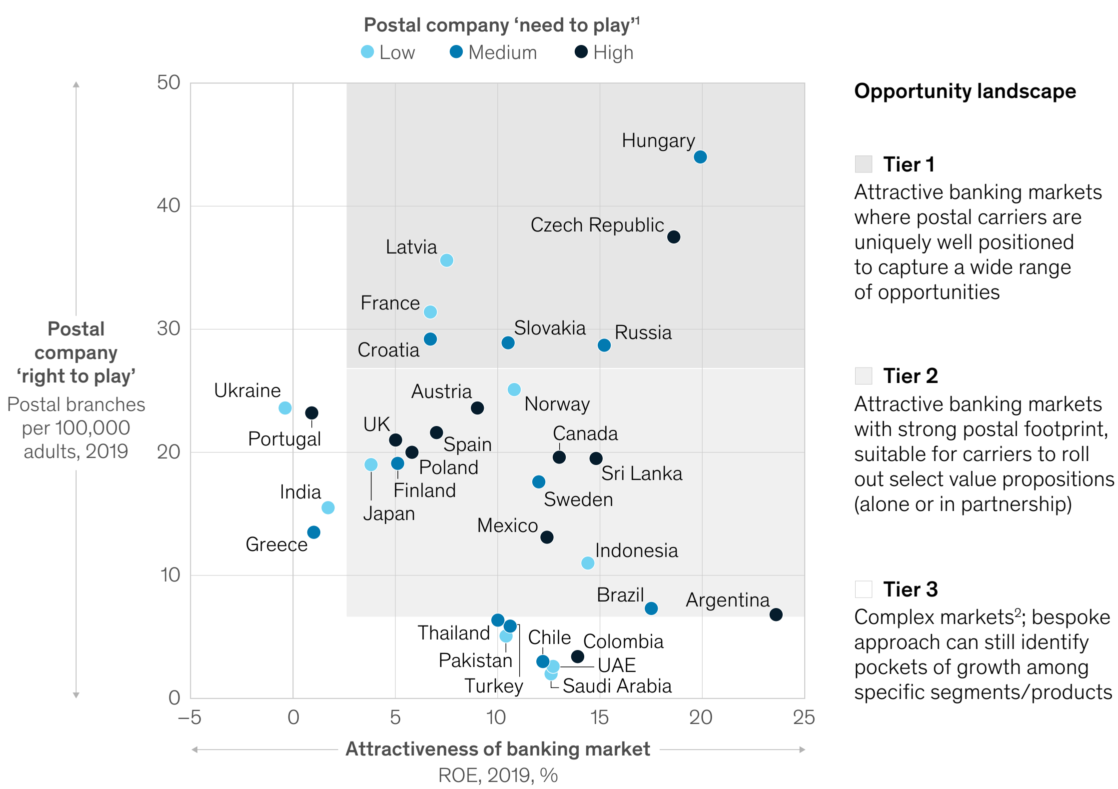
In some cases, all three factors help postal carriers make a financial play. In these markets, postal companies are uniquely positioned to capture a wide range of opportunities, often because their large physical networks have greater reach than those of retail banks. These lands of opportunities include a number of countries in Central and Eastern Europe, where a high density of post offices is common. In such very attractive markets, postal branches are so well distributed that players can pick and choose where and how to enter the financial-services markets.

In France, La Banque Postale identified younger client segments as the target demographic for its financial-services efforts. The postal bank crafted a new value proposition by launching a mobile bank in 2019: Ma French Bank. Although it is a digital platform, La Poste's physical branches provide in-person support—postal staff direct customers to the online app and advise them on suitable account options. In 15 months, more than 250,000 new customers opened Ma French Bank accounts. Seventy-five percent did not have a Banque Postale account previously.

Exhibit

Financial-services opportunities are open to the majority of postal companies around the world.

Analysis of 54 markets worldwide



[1]Based on income reliance on letter post: high (letter post income is >60% of total), medium (40–60% of total), and low (<40% of total).
[2]Where banking margins are compressed, or markets with atypical branch networks (ie, driven by differential population density).
Source: SNL Financial; Trading Economics; Universal Postal Union; World Bank; McKinsey analysis

Postal carriers with strong footprints can carve out specific value propositions that appeal to different market segments and focus on propitious underserved needs.

Selected chances

The second tier of opportunity in financial services can be described as selected chances. Many developed and developing countries in Europe, the Asia–Pacific region, and the Americas fall in this category. The banking markets in these countries are still relatively attractive, though less so than the markets in the lands of opportunity. Postal carriers with strong footprints should be able to carve out specific value propositions that appeal to different market segments. In addition to focusing on propitious underserved needs, postal carriers could partner with existing banks to launch banking products and services jointly.

Pockets of growth

Even in markets with limited financial-services opportunities, postal companies may find pockets of growth where they can carve out space for themselves. Unlike countries in the previous category, these are complex markets where banking margins are compressed or regions where wide variations in population density have led to an uneven distribution of branches. Entering the financial-services sector may be more difficult in these markets, so players will first have to ascertain what opportunities are available; starting with just a few services, for example, they can focus on bespoke financial services and on products for niche segments. Over time, companies may be able to build on their successes to capture more value.

Take CTT in Portugal, which operates the country's national postal service. It launched a series of financial-services offerings from 2014 to 2020, both in partnership with financial institutions and through its own banking license. Despite margin compression in the country's retail-banking sector, CTT was uniquely well positioned to offer government bonds, given its close government ties, its footprint across urban and rural communities, and its trusted brand image. Starting with government bonds, the bank rolled out its financial services sequentially, in carefully chosen branches, to streamline operations and maintain a consistently high-quality customer experience. Over time, the bank scaled up its financial services, which now account for a quarter of its earnings before interest, taxes, depreciation, and amortization—despite a low-ROE banking environment.

Making a financial-services play: Questions to consider

Whatever tier a postal company finds itself in, a few considerations should guide its financial-services decision making—whether to launch a new mobile bank or to expand a current suite of products. Postal carriers looking to place a strategic bet in this sector should answer the following three questions.

What are the unmet needs of our customers?

As banking grows in complexity, and customer needs become increasingly nuanced, traditional one-size-fits-all, mass-market solutions have underserved some groups of customers. Our experience suggests that many population segments, across all age and income groups, have difficulty accessing specific banking products. Gig-economy workers and recent immigrants, for instance, may find it tricky to take out personal loans, given the lack of traditional credit-bureau data about them. Young, affluent, and digitally savvy customers may not be satisfied by the traditional banks' customer experience, which they find inferior to the premium-like digital service they get in some other industries.

Aspiring financial-services providers should therefore identify these customers and map their biggest underserved needs before setting out to craft relevant offerings. This way, organizations maximize the chances that early adopters will scale up demand during the critical initial stages of the launch.

What additional capabilities do we need, and how do we acquire them?
Not surprisingly, a financial-services play requires a certain level of digital technology, both customer facing (web or mobile interfaces) and operational (for instance, using advanced analytics to calculate a potential customer's risk of default). A postal company may decide to invest the resources necessary to develop the in-house digital capabilities or partner with a bank to offer potential customers the relevant financial services.

The choice depends on the existing dynamics and the alignment of incentives between postal carriers and legacy banks. The factors to consider include the company's product vision, time to market, and value at stake. Building in-house capabilities may take time but will probably make it easier for companies to refine their product offerings and customer experience—which may improve the value proposition over the long run. Developing these capabilities internally also allows the postal carrier to retain more value. Conversely, partnering with a bank can significantly streamline and speed up the path to market. Given the vast differences between how banks and post offices are run, a partnership would make it significantly easier to obtain these capabilities, as well as less costly and risky for postal carriers.

How can financial services contribute to the business's long-term financial sustainability?
Leaders can consider developing a longer-term strategy in which financial services play a more central role in a company's business model. Among the postal carriers we have researched, financial services account for around 20 percent of total revenues on average. For many, this share is growing. For the carriers that provide broad, mature financial-services offerings—such as La Poste, New Zealand Post, and Poste Italiane–this segment makes up between 40 and 50 percent of total revenues.

In addition, financial services enjoy a higher profit margin than letter mail and can account for an outsize share of a postal carrier's total profits. In some instances, financial services help reduce the overall losses of struggling postal carriers. A coherent, detailed plan for financial-services offerings could significantly improve your company's financial sustainability.

Our research shows a widening profitability gap between the banking and postal sectors in many countries. The good news is that many postal companies already have most of the necessary (and expensive) materials to bridge the gap. Many have already dipped their toes in the world of finance, but that sector remains a pool of great value. Of course, other retailers with wide distribution networks may also take a leaf from this playbook.

If postal executives and other business leaders can leverage their existing distribution networks to provide financial services, their companies could not only become a more integral part of their customers' everyday lives but would also create a business model that can endure into the future.

Eszter Beretzky is a senior knowledge expert in McKinsey's Brussels office, **Ludwig Hausmann** is a partner in the Munich office, **Nemanja Predojevic** is a research science specialist in the Vancouver office, **Michael Yee** is an associate partner in the Toronto office, and **Francisco Simao** is a senior adviser based in Portugal.

The authors wish to thank Miklos Dietz, Ryan Gavin, and Jules Seeley for their contributions to this article.

Designed by McKinsey Global Publishing