

Brazil's Diverse (and Popular) Postal Services

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EXECUTIVE SUMMARY

Brazil's national postal operator, Empresa Brasileira de Correios e Telégrafos (ECT or Correios) is the country's designated provider of universal postal service. Under the authority of the federal Ministry of Communications, Correios utilizes the terms of its regulatory mail monopoly to manage a comprehensive network spanning the world's fifth largest nation.

Correios is widely regarded as a world leader among postal providers for its innovative use of strategic partnerships with other government agencies and private companies. The provider consistently enjoys popularity among consumers. Its high-profile relationship with Banco Postal, which leverages its extensive network of retail post offices for the provision of consumer financial services, especially to poor and underserved Brazilians, is the most prominent of these.

Additionally, by allowing post office customers to access a wide range of federal government transactions, consumers enjoy greater convenience while the postal provider receives supplemental revenue.

The absence of a strong, independent regulator, on the other hand, restricts transparency in ways that undermine these benefits in a number of ways:

- Lacking service quality metrics audited by an independent authority, consumers lack the confidence of informed expectations and uniform delivery standards in their use of mail and delivery services.
- Private-sector providers competing against Correios or its strategic partners cannot be confident they are being competed against fairly.
- Assurances preventing cross-subsidization from proceeds of the government monopoly to competitive markets are also lacking, to the detriment of monopoly consumers, taxpayers or private-sector competitors.

This paper discusses the reforms Brazil implemented over the last decade, the partnerships created and the culture of the organization that allows it to thrive.

Details follow.

INTRODUCTION

The Brazilian Post and Telegraph Corporation (Empresa Brasileira de Correios e Telégrafos), known as ECT and also Correios, is wholly owned by the government of Brazil. It is under the supervision of the Ministry of Communications, which is responsible for the postal sector. Under this arrangement, it does not operate under the supervision of an independent regulatory authority, so that operational and regulatory functions reside within the same political hierarchy. Founded in 1969, Correios, with over 125,000 employees, is the country's largest employer.¹

Correios operates a network with some 12,000 consumer outlets, of which more than 6,000 are full-time, autonomous post offices. Of these, 91 percent are in the country's interior, in more than 5,000 municipalities. It also operates over 4,000 community post offices where consumers can make transactions, and another 1,000 franchised post offices.

Brazilians use their post offices for a host of non-postal businesses, and postal revenue has continued to comprise a diminishing share of the national postal operator's revenue. In total, Correios offers over 100 products and services.² These include offerings provided through contracts with other government agencies, including electronic voting, textbook distribution and government applications and permits, as well as arrangements with private companies.

There are many aspects of Correios that set it apart from posts in other countries. To start with, Correios consistently ranks as one of the most reliable public institutions in Brazil, with an approval rating hovering around 82 percent³ (one of the highest among all government posts), for which its management has been widely recognized for both reliability and innovation.⁴

Brazil has one of the largest mail volumes per person in the world, with approximately 52 items per capita annually, or nearly three times the average (18.4) among countries with similar gross domestic product per capita.⁵

Correios' is among the world's most comprehensive postal networks, across the world's fifth largest country by both population and size. On average, each post office within Brazil's network serves 16,500 residents. Among the largest Latin American economies, only Argentina and Mexico have smaller ratios (10,000 and 4,400 respectively).⁶

Brazil is highly urbanized, with over 250 cities with populations of at least 100,000. Indeed 86 percent of the population lives in urban areas, which allows for efficiencies and frees up capital to serve less populated areas.⁷ Urban areas receive postal deliveries every working day in Brazil.⁸

Yet Brazil's postal system still faces the same challenges other countries do, such as how to maintain revenue in an age of declining postal use; how to ensure universal service to a growing and more dispersed population; and how to stay competitive amongst new market entries.

In fact, it has emerged as a popular model for other national postal operators to study and emulate. How did Brazil become such a highly-regarded postal operator? What lessons does Correios' management offer other providers looking to replicate its popularity?

POSTAL MONOPOLY

Brazil's national postal operator maintains a monopoly on letter mail and smaller parcels. This monopoly is regarded as a financing mechanism to support its requirement to provide universal service across the vast country.

¹ Correios, *Brazilian Postal History*, <http://www.correios.com.br/english/the-brazil-post/history-and-facts>.

² Jose Anson, Joelle Toledano, Laia Bosch and Justin Caron *Postal Economics in Developing Countries: Posts, Infrastructure of the 21st Century?* (Universal Postal Council, Bern, 2008).

³ Andrea Novais, *Empresa Brasileira de Correios e Telégrafos* (October 5, 2011).

⁴ Correios, *Innovation*, <http://www.correios.com.br/english/the-brazil-post/history-and-facts/innovation>

⁵ Angola, Belarus, Columbia, Costa Rica, FYROM (Republic of Macedonia), Montenegro, Panama, Saint Lucia, Serbia, and South Africa. Universal Postal Union, *ICTs, New Services and Transformation of the Post* (2010).

⁶ Universal Postal Union, *Postal Statistics and Status and Structure* (2012).

⁷ *ICTs, new services and transformation of the Post*, *op cit*.

⁸ *Postal Statistics and Status and Structure*, *op cit*.

Delivery targets established by the federal government require Correios to deliver 95 percent of letters within five working days, and 90 percent within two working days. Similar service requirements apply to printed, non-urgent materials.

Standing regulations require that private delivery companies be assessed a fee of 0.5 percent of its revenues to help support the universal service requirement. But the fee is applied unevenly, and it is unclear which private companies are required to pay.

POSTAL BANKING

It is not uncommon today for postal operators to diversify their revenue streams by incorporating banking businesses into their service portfolio. In 2002, Correios entered a 10-year partnership with Bradesco, a national private bank, to provide financial services and enable the government to foster financial inclusion. At that time, an estimated 45 million adults did not have a bank account and were considered “unbankable”. This was largely due to the fact that approximately 75 percent of all bank branches were located in the developed southern and eastern parts of Brazil, which has all of the major cities.⁹

By 2009, the banking situation had improved significantly for the northern and western parts of Brazil, with 6,021 post offices providing financial services to 8.8 million of these “unbanked” residents with over 1.2 million transactions made daily. Over 700,000 loans were made between 2002 and 2009, with postal banking becoming an important player in the microcredit market.¹⁰

The partnership with Bradesco ended in 2011 when Correios held a new competition for its fast-growing postal banking business. It awarded a five-year contract to state-owned Banco do Brasil, which began running the postal banking network in January 2012.¹¹

Brazil’s network of post offices are connected to the Internet and offer financial services. Banco Postal is regulated by the Brazilian central bank.

The Correios banking partnership was intended to provide, through its retail network, basic banking services to consumers without access to any formal financial network, a key goal for the government at the time. The undertaking is a widely-regarded success story because it shows that “digital and physical networks such as information and communications technology (ICTs) and Posts can be successfully combined and provide both with ‘win-win’ scenarios, including improved efficiency, competitiveness and profitability for Posts, and increased utilization of and access to ICTs.”¹²

A project of this scope required significant input and cooperation from key stakeholders, including three government agencies (Correios, the Ministry of Communications and the Central Bank) and a private bank. It was determined that to succeed, the venture must, first, offer real-time financial services that were integrated and interactive, with a focus on being customer-friendly; and second, ensure the initial system focused on rural areas and citizens with limited economic means with little or no access to formal financial channels so as not to be in direct competition with consumer banks for customers who already had access to banking services.¹³

Correios’ leadership recognized early on that adding banking products through the postal network could increase the value of its network, share some of the costs of maintaining universal service and help to lessen the impact of future declines in basic mail volumes. In addition to a healthy mail market, and a fairly literate population (over 90 percent), Brazil boasts the highest number of Internet users in Latin America, over 35 percent.¹⁴

But there was a still a digital divide, and the government understood that investing in the integration of the physical, electronic and financial networks

⁹ Central Intelligence Agency, *The World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/geos/br.html>.

¹⁰ *ICTs, new services and transformation of the Post*, *op cit*.

¹¹ Marcio I. Nakane and Bruna de Paula Rocha, *Policy Innovations to Improve Access to Financial Services: The Case of Brazil* (Center for Global Development, Updated February 2012).

¹² *Ibid*.

¹³ *Ibid*.

¹⁴ *The World Factbook*, *op cit*.

would significantly enhance the ability to distribute nationwide services through Correios' network and reach the underserved populations.¹⁵

POLICY GOALS

The banking model reflects Brazil's larger goal of economic inclusion. In 1999, just prior to the Banco Postal project, the Brazilian government established, through the Ministry of Communications, a banking correspondent system to educate the public on electronic banking processes and products. This opened the door for consumer and government banks to enter into agreements with shops, supermarkets, etc. Based in rural areas, the program was implemented, tested, modified and refined. The results were directly related to the model used for postal banking and the selection of Bradesco as the original banking partner.¹⁶

Correios management decided its partner bank should be selected via a competitive, public tender-bidding process. Proposals were based on the fees each would pay Correios for each type of transaction in each group and for the interest (by percentage) it would pay on accounts. Finally, each bidder had to propose a "down payment" fee that was applied to the cost of developing the Banco Postal system component.¹⁷

Bradesco, one of the largest consumer banks in Brazil, won the initial bid and became the banking partner. Bradesco could appreciate Correios' efficient network and excellent reputation and understood how the respective networks complemented each other: Correios' 5,300 offices in mostly rural areas and Bradesco's approximately 3,300 outlets in mostly urban areas.

Bradesco and Correios entered into a non-exclusive contract, according to which Bradesco was required to give priority to connecting Banco Postal outlets

in municipalities where no banking services were currently available. Bradesco was also responsible for transporting money. Likewise, customers of both banks would have access to the two networks via post offices and automated teller machines. Furthermore, Banco Postal would offer a wider range of financial products than other correspondent banks, such as checking accounts, which gave it a competitive edge. Today the correspondent network offered through Banco Postal is extensive, but bill payment still dominates the volume of transactions, at over 75 percent.¹⁸

The hardest part of implementation was the retraining of postal employees. Banco Postal's rural customers faced a learning curve, while postal employees needed to be educated about retail banking products and processes. Banco Postal began by keeping the banking products simple, easy to understand, with affordable and transparent fees and rates. With the help of IBM, it was decided to train two employees, a clerk and a back office agent, for each branch and have a financial manager for each region.¹⁹

MEASURING SUCCESS

Various data points continue to show positive results, especially with regards to financial inclusion in poorer municipalities and banking for those who had been considered "unbankable". Indeed, those living in the poorest 50 percent of municipalities, which represents 29 percent of the population, account for over 50 percent of all Banco Postal deposits.²¹

In 2002, 1,750 municipalities had no banking services; by 2005, Banco Postal had covered 96 percent of these. By 2009, over 6,000 Banco Postal branches provided access to over 14 million customers and had provided more than 1.93 million loans, an incredible stimulus for local small and medium-sized enterprises.²¹

¹⁵ ICTs, *new services and transformation of the Post*, *op cit*.

¹⁶ *Ibid*.

¹⁷ *Ibid*.

¹⁸ Olympia A. De Castro, *Correspondent Banking in Brazil*, <http://www.ifmr.co.in/blog/2010/07/28/correspondent-banking-in-brazil/> (IMFR Capital, July 28, 2010).

¹⁹ *Ibid*.

²⁰ Universal Postal Union, *Development Strategies for the Postal Sector: An Economic Perspective* (2014).

²¹ ICTs, *new services and transformation of the Post*, *op cit*.

The use of Correios' network, along with the establishment of Banco Postal, has helped to maintain profitability and strengthen Correios' universal service. Post offices slated to close continue to operate at a profit with income earned from Banco Postal services. At other outlets, Banco Postal revenues exceed postal revenues. Figure 1 shows products

and services Correios has added since the creation of Banco Postal. It underscores how Correios is more than just a post office for rural communities and helps to explain its high brand rating. The expanded offerings and revenue have empowered Correios to invest further in technology to maximize profits and strengthen the network.

Figure 1. Services Distributed Through the ECT Network²²

Product/service	Coverage/description	ICT added value	Postal added value	Economic/social benefits
Election Voting	5,561 municipalities 115 million voters 250,000 machines	Real time voting Reduced fraud Electronic voting box – flexibility	Trusted sites Voter verification Locale customized	More voter participation Improved accountability Increased social inclusion Reduced rural isolation
Medicine Distribution	Nationwide	Track/trace Data gathering Information sharing	Extended network Controlled distribution	Rural areas reached Improved national health
Schoolbook Distribution	120 million books/year 136,000 schools 32 million students	Track/trace Data gathering	Predictable shipping “Last mile” delivery Customized by locale	Higher education levels Greater competitiveness
Address database management	46 million addresses	Automated updating	Added-value product offering for advertisers	Information for mass mailers Information for security, taxes
E-Government	Applications, permits, legal documents, social security verification	Online Access	On-site certification of government documents	Travel/waiting time saved Two-way communication Accessible government
E-Commerce	CorreiosNet: online shopping Listing of SMEs on website	Track/trace Designed for Internet-based businesses	Door to door collection and delivery Secure handling Overnight delivery	Economic activity growth Stimulation of SMEs
Exporta Facil	Simplified process for exports below US \$50,000	Track/trace Expedited customs	Nationwide shipping Support for SMEs	Improved exports
International financial remittances – VIE	All municipalities (6,050 post offices) UPU based – 20 countries Eurogiro – 22 countries Electronic money orders – 20 countries	Fully automated in Brazil Money laundering control coordinated with national authorities	Comprehensive national coverage Established relationships with other postal operators	Lowest price and exchange “spread” Strong support for SME and rural economic growth Reduction of illegal remittance market
Digital certification	All the benefits of the traditional paper-based postmark for electronic documents	Date and time stamping, digital identity capture, content verification/encryption	Combined with traditional postal products	Proof that the content of an electronic message has not been altered Increased and simplified document verification
Acronyms: ICT (Information and Communications Technology); SME (Small and Medium Sized Enterprises); UPU (Universal Postal Union).				

²²ICTs, new services and transformation of the Post, *op cit*.

OTHER PRODUCTS AND SERVICES

Correios' outlets offer Brazilians a wide range of products and services, many through contractual arrangements with other federal government and private entities (see Figure 1). These arrangements provide convenient options for consumers while offering the postal operator a valuable diversification of revenue sources as mail volume continues to decline.

One area to take note of is E-Government services, where Brazil's postal operator has taken a pioneering role. Currently, the coverage is only for transactions with the federal government. However, there are opportunities to expand this to include state and local municipalities, as most interactions, such as licenses, fees and tickets, and utility services, are through the local governments.

RECENT REFORMS

In early 2012, the Brazilian Ministry of Communications issued new regulations to strengthen the universal access requirements for the country's postal service. Even though Correios is considered to have a dense network and one of the most comprehensive in the world, it needed to reach more people living in rural and remote areas.

Correios was mandated to expand the coverage of its services and imposed delivery targets including 95 percent of letters to arrive within five working days.²³ In terms of universal access, Correios committed to having a post office in all 5,565 municipalities (even though Correios was represented in 99 percent of the municipalities, it still left 46 with no presence). Though most of these goals appear to have been met, Correios still has more to do and is working on innovative solutions to ensure these standards are met, including seeking franchise

owners to run new post offices in these municipalities.²⁴

These new rules also expand Correios' scope to allow for delivery to addresses not officially recognized by the government, but which can be identified as an address. If a building meets the minimum standards -- suitable sign for identification and appropriately numbered along a named street -- even without recognition from the public authorities, Correios will still deliver the parcel/letter. Also, deliveries to residences with limited or inadequate access can still be attempted through single-point community mailboxes.²⁵

PRIORITIES FOR BRAZIL'S POSTAL SERVICE

Brazil's Communications Minister, Paul Bernardo, pledged "loud and clear" that privatization of the national postal operator would not happen in 2011. Bernardo expressed a desire to utilize advisors from outside Correios to help the agency focus within priority areas. Such activity is not permitted and would require a change to postal regulations.²⁶

With the success and popularity of its present partnerships, there is strong support within the postal administration for continuing to explore and expand such opportunities. In the coming decade, Correios believes georeferencing and mobility services are at the technological forefront and are imperatives for improving its business processes and better streamlining its operations.²⁷

Currently, Correios has two labs that are focused on developing mobile solutions for both employees and consumers. According to Antonio Luis Fuschino, Vice President for Technology and Infrastructure, in an effort to increase operational efficiency, create opportunities for new services and improve custom-

²³"Brazil's postal service set targets to improve universal access," <http://postandparcel.info/44626/news/companies/brazils-postal-service-set-targets-to-improve-universal-access/> (Jan 3, 2012).

²⁴*Ibid.*

²⁵*Ibid.*

²⁶James Cartledge, "Brazil's Post Office Will Not Be Privatized, Minister Pledges," <http://postandparcel.info/37261/news/brazil%E2%80%99s-post-office-will-not-be-privatised-minister-pledges/> (March 30, 2011).

²⁷Pedro Ozores, "Geolocation, mobility services are priorities for Brazil's postal service," <http://www.bnamericas.com/news/telecommunications/geolocation-mobility-services-are-priorities-for-brazils-postal-service> (October 9, 2013).

er perception, the first priority is to provide workers with smartphones to instantly update the status of deliveries into the system. Every employee with a smartphone has an app with a list of houses located within their territory. Several thousand employees currently have smartphones, and plans included delivering an additional 55,000 by the end of the first quarter 2014.²⁸

Throughout Brazil's highly urbanized areas, 79 percent of customers receive home delivery, while the other 21 percent have to collect basic mail from a postal establishment. With a high concentration of mail volumes in these areas (83 percent of the mail is distributed to just 20 percent of its states), there is a robust addressing system -- over 46 million addresses, one of the most comprehensive in the world.²⁹ This allows Correios to utilize advanced and less costly processing procedures to maintain quality of service. The postal operator is working towards having a geolocation reference for each of the zip codes within a worker's service area, creating a "Flexible Postal District".

This is done in partnership with the federal data processing agency Serpro.³⁰ Correios is also exploring implementing geocoding quality indicator tools to abate incomplete and possibly inaccurate addressing data. This effort is in conjunction with other government agencies that rely on the accuracy of an address including epidemic surveillance and crime analysis.³¹

Other improvements underway revolve around better interactivity with customers, such as efficiencies in scheduling deliveries and collections, to reduce expenditures on second and third delivery attempts. It is estimated the operator spends 700 million reais (US \$318 million) on these attempts.³² This is also to help mitigate robberies. Correios is required by law to deliver everywhere, even high crime areas, which

foreign firms can elect not to deliver to. All of these are still in the early development stage but show Correios' commitment to improve efficiency and customer service.

Since Correios is a monopoly and by law the only operator allowed to deliver letters, post cards, telegrams, and packages that contain any of the previous items, foreign operators compete directly with Sedex, Correios' express delivery company.³³ Though Brazil has experienced economic growth over the last decade, the infrastructure has not kept pace and transportation throughout the country can be problematic. According to the National Confederation of Transportation, 69 percent of Brazilian roads are in bad condition, with most of these being in the northern and northeastern parts of the country.³⁴ Bad roads, high costs of rails, and the saturation of aerospace, along with poor airport infrastructure make for bigger headaches for express delivery and logistics companies.

In addition, Correios management has recently dealt with Postal Union members striking in 13 Brazilian states over the transfer of Brazil Post's healthcare funding system to a new management agency, claiming that it means new fees for workers. To date, the courts have generally backed Correios, however, how big a mark this leaves on the brand's popularity and to worker morale has yet to be assessed. The strike has caused delivery delays and Correios has transferred workers in from other areas to cover for striking staff, as well as organized extra shifts on weekends to help deal with the backlog, delivering around 4.3 million letters and parcels.

In 2013, Brazil's Ministry of Communications asked Correios management to examine possible options for offering free, secure email service for all Brazilian citizens.³⁵ The agency had recently phased out its CorreiosNet email service. A Correios official

²⁸*Ibid.*

²⁹Postal and Courier Services, WTO, *Council for Trade in Services* (August 2010).

³⁰Ozores, *op cit.*

³¹Clodoveu Davis Jr, Frederico Foneseca and Karla Borges, *A Flexible Addressing System for Approximate Geocoding* (undated).

³²Ozores, *op cit.*

³³ <http://www.correios.com.br/english/the-brazil-post/history-and-facts>.

³⁴Despoluir, <http://www.cntdespoluir.org.br/Paginas/Inicio.aspx>.

³⁵Angela Mari, "Brazilian Postal System Talks About 'Anti-Snooping' Email System," *Brazil Tech* <http://www.zdnet.com/brazilian-postal-service-talks-about-anti-snooping-email-system-7000020257/> (September 4, 2013).

³⁶*Ibid.*

noted that partnerships to scale up information technology operations would be necessary, and that his agency was studying the costs and infrastructure requirements for a system that could be required to offer email services to a population of more than 100 million people.³⁶

CONCLUSION

There are several lessons to be drawn from Correios and the Brazilian postal sector. A key point to emerge is the need for a cohesive policy and regulatory environment to track and measure the needs of the population and encourage postal enterprises to expand and leverage their strengths to offer better and more diversified services.

Despite evidence of strong, positive consumer attitudes about Correios, the absence of an independent postal regulator stands as an impediment to greater success. Verified data on service performance is limited in Brazil. For example, information on frequency of delivery in rural regions, a standard metric in most large, developing nations, was unavailable for Brazil.

Another dilemma posed by the absence of an independent regulatory authority supervising Correios' operations is the lack of confident safeguards of

equal treatment for private-sector providers and partners. This applies to both the selection and contracting processes as well as to ensuring that access to facilities of the government monopoly do not result in unfair advantages for partners. The present arrangement for the provision of financial services maintains that the regulatory regime of Brazil's central bank is a vital component. Should the postal operator pursue further partnerships with private companies, establishing verifiable processes to ensure equal treatment among providers will be essential.

The Banco Postal partnership shows that success is not easily achieved, and must start with a strong foundation of infrastructure and capability. When a promising opportunity was recognized, the project was carefully planned and implemented with the support and commitment of the top management.

Appropriate attention appears to have been paid to selecting the right technology to ensure success. Building and growing the strategy has been carefully executed and has focused on differentiating from the competition. Strategic partnerships have been built around competitive tariffs and incentives, and proper training and support was understood to be paramount.

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