

**RESPONSES TO POSTCOMM'S 'REVIEW OF CONSIGNIA PLC'S PRICE AND SERVICE  
QUALITY REGULATION: A COMPENSATION SCHEME, A CONSULTATION  
DOCUMENT'**

Postcomm received 10 written communications following its consultation document published in October 2002. Of these none were confidential and are published below.

Age Concern England
Direct Marketing Association
Mr John Elder, member of the public
Isle of Anglesey County Council
Institute of Directors
National Consumer Council
Office of the First Minister and Deputy First Minister
Postwatch
Royal Mail
Mr J R Yates, member of the public

**Age Concern England**

Age Concern England (the National Council on Ageing) brings together Age Concern organisations working at a local level and 100 national bodies, including charities, professional bodies and representational groups with an interest in older people and ageing issues. Through our national information line, which receives 225,000 telephone and postal enquiries a year, and the information services offered by local Age Concern organisations, we are in day to day contact with older people and their concerns.

We welcome the opportunity to comment on proposals to introduce a scheme to compensate consumers when Royal Mail fails to meet its service standards. The main anxiety of Age Concern with regard to Postcomm proposals to liberalise the mail services is the maintenance of a universal service at an affordable price for domestic consumers. However, we do not agree with Postcomm that the continued ability for Royal Mail to continue to be able to fund the universal service should be taken into consideration when determining the compensation scheme Royal Mail should implement to pay consumers for failures in service as suggested in Paragraphs 3.3, 3.10 and 3.36 of this document. Other consultations from Postcomm, for example 'Implementation of the European Directive on Postal Services in the UK', have given assurances that, if for any reason Royal Mail Group plc can no longer afford to provide the universal service, Postcomm, by retaining a licensing system would be well placed to get other operators to contribute to these costs. Age Concern does not consider that consumers should not be adequately recompensed for poor service from Royal Mail where it is deemed to be in a monopoly position, just because it is currently the sole provider of the universal service. We do agree that the levels of compensation for delay should reflect both the severity of service failure but avoid providing unnecessary incentives to fraud.

We agree that consumers will be more likely to claim compensation when they have been inconvenienced or experienced particular problems arising from a delay in

delivery of postal items. However, we would expect this to arise more often when the postal item involved is a parcel than with delay in a second class letter delivery. We therefore do not understand why compensation for a late parcel is not payable until 8 working days after it should have been delivered when it is proposed that compensation payments should start for delay in the delivery of a second class letter on the 4<sup>th</sup> working day after it was due. In addition this delay before compensation becomes payable means that a person receiving a second class letter on the 18<sup>th</sup> day after it was posted (the final day before both second class mail and parcels will be deemed to be lost) receives more compensation than when they receive a parcel on the 18<sup>th</sup> day after it was posted. We think that, in view of the likely inconvenience to the customer of delay in receiving a parcel, consideration should be given to making the level of compensation higher for lost parcels by making it payable before the 4<sup>th</sup> day after it was due. At the very least it should be payable at the same rate as second class mail.

We understand that this compensation scheme is being proposed on the basis that it acts as some substitute for effective competition in certain areas of the mail services market. This is not the same thing as imposing compensation requirements on those services deemed to be universal ones. We therefore have some sympathy with Royal Mail Group plc's view that, because of the level of competition in the Special Delivery market, the Regulator should not be proposing to impose compensation requirements on their Special Delivery service. The fact that registered mail is included in the universal service requirements should not affect this principle. Provided Postcomm concur with Royal Mail that this market is sufficiently competitive, we agree with Royal Mail that they should not be required to make regulated compensation payments with regard to their Special Delivery failures.

If however, this argument is rejected by Postcomm, Age Concern does not agree with Royal Mail that a refund of the Special Delivery fee only is adequate compensation for the inconvenience of the delay. We support the proposal in paragraph 3.10. For similar reasons we agree with Postwatch that a further £3 should be paid once the item has been deemed to actually be lost. (Although we are well aware that the item could have been merely so substantially delayed that it could still be delivered after this scheme has deemed it to be lost and compensation paid.) For the same reason we think that just refunding the Keepsafe fee is insufficient compensation for failure of this service.

Since Postcomm are introducing competition into the bulk mail services market soon, Age Concern recommends that:- 'which should also take into account the effects of liberalisation in this market' is added to the last sentence in paragraph 3.42. If Royal Mail no longer has a monopoly in the bulk mail market after the first year of operation of the compensation scheme, it would then not be appropriate for either Postcomm or Postwatch to impose compensation levels on them for service failures in this market.

Age Concern is disappointed that we have received yet another consultation which continuously mentions universal service when Postcomm have still not issued their long awaited consultation on what services this should cover. We also note that a compensation scheme was due to be introduced in September 2001 but will now not be in place until April 2003, a delay of 18 months. We do not think either of these delays are acceptable and urge Postcomm to give absolute priority to issuing their consultation on universal service as soon as possible.

Yours sincerely

**Gretel Jones**

Utilities and Consumer Affairs Policy Officer

Review of Consignia plc's  
Price and Service Quality Regulation  
October 2002  
A Compensation Scheme



**Table of Contents**

**DMA** ..... Error! Bookmark not defined.

**Domestic or Retail Service Users** ..... **5**

**Bulk Mail Services**..... **6**

*The Amount of Compensation* ..... 6

*Commencement and Payment of Bulk Mails Compensation Scheme* ..... 6

*Reporting and Review of the Compensation Scheme*..... 6

**General** ..... **6**

## **Direct Marketing Association**

The DMA has been actively involved in all Postcomm's consultations to date. The DMA represents nearly 900 companies who use or provide direct marketing services in the UK. We represent nearly all the 5 billion items of direct mail and probably represent over 90% of all business mail circa 15 billion items.

## **Domestic or Retail Service Users**

The compensation proposed for 1<sup>st</sup>, 2<sup>nd</sup> class and 3 day standard parcels meets the requirements for delay compensation.

Special delivery should be excluded from the compensation scheme as it already contains guarantees, money back guarantee and delay compensation terms within the product. Inclusion into the domestic scheme would be unnecessary regulatory interference in a product that is considered one of Royal Mail Group's best products.

The additional £3 payment between delay and lost, emphasises the differences between the two states and is adequate recompense.

The damage recompense is effective provided there is evidence of its damage.

Where an existing product or service is outside the scope of Royal Mail Group's licence then that product should not be included into the compensation scheme. Such products/services such as 'Keepsafe' and 'Redirections' have their own compensation schemes which appear to meet the requirements of users.

Including them in the compensation scheme would merely add a regulatory cost and burden to Royal Mail Group.

On the issue of evidence of posting and delivery, effectively proving or disproving the claim, the burden appears very much on Royal Mail Group. There appears no way Royal Mail Group can prove or disprove the claim. It is therefore too open to fraud. The possible exposure to Royal Mail Group, just on delay, could be in excess of £200m. Given the current state of Royal Mail Group, this is an exposure Royal Mail Group and the industry cannot afford.

We recommend that a ceiling be set on the delay claims which will be correlated with quality performance at the end of the price control year. If the scheme ceiling was too low, based on service performance it would be increased for the next year.

In cases of major Inland Revenue activity, which are extended beyond a few days, then the compensation scheme should be suspended.

## **Bulk Mail Services**

### *The Amount of Compensation*

We agree with the proposed amount of compensation payable in quality performance versus target.

### *Commencement and Payment of Bulk Mails Compensation Scheme*

The scheme should commence at the same time as price control, April 2003. Payments should be on an automatic basis to users, to an agreed bank account. The amounts should be paid after the period of the targets.

### *Reporting and Review of the Compensation Scheme*

The reporting and review should be simple and efficient. It would be foolish to add a regulatory burden.

The monitoring and review would be relatively easy due to the relationship to quality of service targets.

It would not be prudent to report on anything beyond a quarterly basis.

## **General**

The scheme should relate to the proposed new targets put forward in DMA's submission to Postcomm's consultation on the 2<sup>nd</sup> Price Control. In the submission we propose targets for 2<sup>nd</sup> class products should be extended by 0.5-1 percentage point.

It is not clear at which point the scheme would be disabled or suspended, for example:-

- Industrial relations
- Service suspension for other reasons
- Revised targets

### **Mr John Elder, member of the public**

With regards to Postcomms latest attempt to screw Royal Mail, will you take into account things like bad weather, flight delays and other such possible delays which are outwith the control of Royal Mail when you decide if we have failed to meet the targets that you have set. There are people out there who will exploit this and use it to make money out of us. Some people are already talking about handing an unopened letter to a neighbour they can trust and keeping it for a few days and saying that the postman delivered it to the wrong address. How are you going to react to this, Make Royal Mail pay up and sack the postman. I might just be just your ordinary day to day postman who isn't as smart as you but we can the problems this scheme is going to create so why cant you. How many thousands of pounds a year does the genius who came up with this bright idea make, believe me, he is ripping you off. Staff moral at Royal Mail

is already at an all time low and when you here of this compensation scheme, you have to wonder if its really getting up at 3 in the morning when you know that no matter how good you are at your job, someone who knows nothing about the postal service will ultimately make the big decisions about whether or not you are going to have a job in a few years time. 21<sup>st</sup> century, more like back to the dark ages.

### **Isle of Anglesey County Council**

The consultation document was distributed among Members and Directors here at the Isle of Anglesey County Council.

Response:-

Against Postcomm's proposal due to need to safeguard Consignia's ability to provide efficient services in our rural communities.

**Beryl Jones**

### **Institute of Directors**

Thank you for giving the Institute the opportunity to comment on these proposals. However, we do not have the resources to offer any comments on this occasion.

**Ruth Lea**

Head of the Policy Unit

### **National Consumer Council**

Thank you for your recent letter inviting NCC to respond to your consultation on Consignia PLC's Price and Service Quality Regulation: Proposals for a Second Price Control and Compensation Scheme. Unfortunately we are not focusing on this area of work at the moment and therefore are not able to make a contribution.

I have enclosed a copy of our booklet 'a sharper focus' which outlines our current areas of work for your information. Should our work priorities change we will of course get back in touch with you.

Yours sincerely,

**Dawn Muspratt**

Head of Director's Office

### **Office Of The First Minister And Deputy First Minister**

Your letter of 9 October to Tom Watson refers. The letter advised of the publication of a proposals document, subject to consultation on a compensation scheme. This was issued as a companion document to Postcomm's proposals paper for a Second Price Control.

You will wish to note that the NI Administration has no comments to offer on the proposed compensation scheme.

Regards  
**Joe Rogan**

### Postwatch

Postwatch welcomes the proposals for the compensation scheme which should be in place and working by 1 April 2003 at the latest. It should be remembered that the amount that Royal Mail pays in compensation may be significantly reduced if it improves its overall service quality. Postwatch believes that compensation will incentivise Royal Mail to improve services. We also consider that the monitoring of the operation of the scheme in the first year is of major importance.

With regard to loss and delay Postwatch considers that Postcomm's proposals for an iterative '£1 a day' compensation payment for delay up to a ceiling is confusing for the customer and difficult to operate. It is extremely difficult to envisage how the correct number of days of delay would be established to the satisfaction of all parties. Postwatch continues to support its original proposals for loss, damage and delay (facilitated under the proposed amendments to Conditions 4 and 8) namely that customers should receive:

- For loss: a flat rate of 100x value of the stamp/frank;
- For delay: 50x value of stamp/frank; and
- For damage: 100x value of stamp/frank.

We note that Allan Leighton has recently proposed compensation levels "pegged at 12 times the cost of the service (for delay) or 24 times (for loss)". Postwatch cannot support such a level of compensation when Royal Mail currently pays compensation at 100 times the value of a stamp.

Definitions for loss and damage are contained under Postcomm's amended Condition 8, with delay defined as the time between the tail of mail and loss. We consider that this 'no quibble' flat rate approach is easier for the customer to understand and easier for Royal Mail to administer. Our proposals contain a strong anti-fraud measure – with proof of postage there would be an automatic entitlement, but without there would be the same entitlement but only for the first claim in a 12 month period. Subsequent claims would be payable at Royal Mail's discretion. In addition, with the first payment a letter would be sent advising the customer how to receive proof of postage.

Postwatch supports the proposals outlined by Postcomm that compensation should be paid for keepsafe and redirection services at the amounts stated. As 'value-added' services to the licensed products service failures for these products impact on overall quality of service for the customer.

Postwatch fully supports Postcomm's adoption of our proposals for bulk mail compensation. Such compensation would be based upon 1 per cent of revenue returned for each percentage that the performance target is missed (or part thereof).

However, the Council considers that where a receiver of a bulk mail piece suffers loss, damage or delay they should also be able to make a claim under the social scheme with values for postage for each item to be set at 1<sup>st</sup> weight step tariff for 1<sup>st</sup> or 2<sup>nd</sup> class stamped mail. (Mailsort 3 to be treated as a 2<sup>nd</sup> class product).

### **Standards of Service**

Postwatch also supports the minimum standards of service outlined in Postcomm's consultation document which, combined with the compensation scheme, provides the customer with significant protection against poor quality of service and redress if service quality is not provided.

It is particularly important to Postwatch that all customers see improvements in their postal services. To combat the issue of hot spots, where customers receive a below national average level of service, we welcome the proposals to have an underpinning level of 91.5% for 1<sup>st</sup> class stamped and metered mail for all postcode areas.

Yours sincerely

**Gregor McGregor**

### **Royal Mail**

Without prejudice to the views expressed in the response to Postcomm on its compensation proposals, Royal Mail is prepared to put a voluntary compensation scheme in place based on goodwill payments where it has no legal liability to compensate the customer. It believes that this proposal meets the needs of users by providing proportionate levels of compensation and will operate in a transparent and open manner, taking account of leading edge industry norms and best utility regulatory practice.

This document provides an overview of the proposal. Royal Mail's standard compensation terms and procedures would apply to the scheme, as would the Inland Letter and Parcel Post Schemes (in so far as appropriate).

## Retail (Social) Scheme Proposal

This scheme covers stamped and metered 1<sup>st</sup> and 2<sup>nd</sup> class letters, standard parcel, Special Delivery, Redirections and Keepsafe.

### **What qualifies?**

Product	Delay outside Christmas	Delay during Christmas (see below)	Loss
Stamped & metered 1 <sup>st</sup> and 2 <sup>nd</sup> class	Between 4 and 15 working days late	Between 5 and 15 working days late	Over 15 working days late
Standard parcel	Between 8 and 15 working days late	Between 8 and 15 working days late	Over 15 working days late
Special Delivery	Outside "money back guaranteed" delivery time	Outside "money back guaranteed" delivery time	Over 10 working days late

### **Payment for Delay**

In order to provide a simple scheme to make payments more proportionate to the cost of the service and reduce incentivisation to fraud, it is proposed that

- All justified delay complaints for stamped and metered mail and standard retail parcels would receive a goodwill payment at a fixed value of 12 times the price of a basic weight step first class stamp (£3.24).<sup>1</sup>
- The current Royal Mail scheme for Special Delivery should remain, i.e. fee refund.

### **Payment for Loss**

In order to make payments proportionate to the cost of the service and reduce incentivisation to fraud it is proposed that

- All justified loss complaints for stamped and metered mail and standard retail parcels should be compensated at the minimum of 24 times the price of a basic weight step first class stamp (£6.48).<sup>2</sup> Proof of market value will be required to receive a payment above the minimum level, up

---

<sup>1</sup> The expected average payment under the Postcomm scheme including refund of postage would be in the region of £5 or £6 for a letter, £12 for a parcel.

<sup>2</sup> The expected minimum payment under the Postcomm scheme would be £14 or £17 for a letter, £10 or £13 for a parcel.

to a maximum of the market value or 100 times the cost of a basic weight step first class stamp (£27.00), whichever is lower. This higher payment will only be payable where the item has not arrived, rather than where it has arrived over 15 days late. Customers will continue to be able to purchase enhanced compensation for the Standard retail parcel.

- The current Royal Mail scheme for Special Delivery will remain.

Consideration has been given to a reduction in 2005/6 in the period of time before a postal packet may be considered to be lost from over 15 days after due date of delivery to over 10 days after due date of delivery. However this does not take account of the length of time required to retain an undeliverable item before returning to sender (at least one week) or the length of time required to return an undeliverable item without an external return address to sender (up to 15 days). Although such items would not be liable for loss compensation if delivery had been attempted within 15 working days of due date, in practice customers could claim compensation for such items and it would not always be possible to trace the item when investigating the claim. Therefore the cut-off should remain at 15 days.

### **Payment for Damage**

Royal Mail will pay compensation up to the market value of the item, or up to a maximum of 100 times the cost of a basic weight step first class stamp (£27.00), whichever is lower. Customers will continue to be able to purchase enhanced compensation for the Standard retail parcel.

Payment will only be made where an item has been properly packaged and where the damage has not been caused by the customer's delivery point.

### **Payment for Redirection**

There is no disagreement between Postcomm, Postwatch and Royal Mail on the level of payment. Royal Mail's current scheme operates these payments set out in Postcomm's paper, on a goodwill basis, as it is not legally liable to pay compensation.

Therefore Royal Mail believe the payments for Redirections should be as set out below, but that these arrangements should fall under Royal Mail's own goodwill scheme.

- 1st daily failure: 12 first class stamps
- 2nd daily failure: free extension of the redirection service for one month
- 3rd daily failure: one month refund of the redirection fee
- 4th daily failure: refund of balance of fee paid

- 5th daily failure and beyond: goodwill payment to be agreed between Royal Mail and the customer.

### **Payment for Keepsafe**

Royal Mail currently offers a refund of fee for a Keepsafe failure on a goodwill basis, as it is not legally liable to do so. All the benchmark evidence points to single fee refund being the commercial norm and maximum for an added value product of this kind. Excessive compensation payments would add to the product costs and ultimately impact on prices.

Therefore Royal Mail believe the payment for Keepsafe should remain as single fee refund and that the arrangements should fall under Royal Mail's own goodwill scheme.

### **Method of compensation**

The Postcomm scheme incentivises fraud by offering disproportionately large cash payments without requiring proof of purchase.

It is proposed that

- Where the claimant provides proof of purchase (certificate of posting or equivalent), compensation or goodwill payments may be paid as money if the claimant requests it. This will usually be in the form of a cheque. We will not pay cash or postal orders without some proof of identity from the claimant.
- Otherwise compensation will be made in the form of stamps, on a goodwill basis only.

This is comparable to issuing a credit note to customers claiming for retail goods without a receipt.

### **Proof of Purchase and Evidence of Problem**

Without some requirement to demonstrate proof of purchase and the existence of a problem, Royal Mail could be subject to large numbers of fraudulent claims. It is proposed that:

- For products where a certificate of posting is automatically provided as part of the transaction (e.g. Special Delivery), complaints for delay or loss will only be accepted for compensation or goodwill payment where the certificate of posting is produced.

- Royal Mail will require the complainant to sign a declaration that the information provided is true.
- Where the customer is complaining about an item that has arrived Royal Mail will require them to submit the item with packaging for investigation as part of the claim. This will apply to all delay and damage claims and some loss claims (at Royal Mail's discretion).
- Where the item has not arrived Royal Mail will require the recipient to sign a "Denial of Receipt" declaration.
- All claims will be investigated before any payment is made.

### **Repeat Claims**

Repeat complaints from individual posting or receiving customers may indicate an underlying problem. They may also be a result of fraud. It is proposed that

- Repeat complaints for delay, loss or damage are only accepted for compensation or goodwill payment where proof of purchase (certificate of posting or equivalent) is provided.
- The customer will be advised of this when compensated or sent a goodwill payment for the first claim.

Repeat complaints without proof of purchase will still be investigated for underlying operational problems, and may be compensated on a goodwill basis at Royal Mail's discretion.

### **Claim periods**

The Postcomm scheme allows customers to claim within three months of receipt and within 12 months of posting. This period is too long. Claims made soon after a problem has arisen are easier to follow up and, in the case of a lost item, stand more chance of recovering the item for the customer. However, under the Postal Services Act, customers are allowed to bring proceedings up to twelve months after posting for loss or damage claims.

It is proposed that

- Customers must complain within 12 months of posting for loss and damage claims.
- Customers must complain within one month of receipt and 3 months of posting for delay claims.

- Customers must complain within one month of the event giving rise to the problem for other services.

This allows sufficient time for the customer to detect and report a problem.

### **Definition of Delay**

Delay is defined by Postcomm as items arriving between 4 and 15 working days after the due day of service. The three day cut-off is set as the period within which 99.9% of mail should arrive. There are some situations where this definition is not appropriate.

### **Christmas**

Postcomm and Postwatch recognise that over the Christmas period when mail volumes double, it is not reasonable to expect the same performance standards. This period is excluded from the measurement of achievement of the annual service standards targetry set out in the Annex to Condition 4 of the Licence. It is therefore reasonable to expect different standards for compensation during this period.

It is proposed that

- For stamped and metered and standard parcel mail posted during the Christmas and New Year period (defined in the scheduled standards as the period commencing on the first Monday in December and ending at the start of the first working day after the New Year or Scottish New Year public holiday), delay compensation will only be paid for items posted up until the relevant last posting date for inland mail where delivery was first made or attempted between 5 and 15 working days after the due day of delivery.
- Items posted within the Christmas and New Year period after the relevant last posting date for Christmas will not be eligible for delay compensation at all.

The 5 day cut-off is set to reflect the period within which 99.9% of mail should arrive during this period.

### **Redirections**

Redirected or diverted mail is expected to take one working day longer than the scheduled service for the relevant product.

It is proposed that

- For stamped and metered that has been redirected or diverted, delay compensation will only be paid where delivery was first made or

attempted between 5 and 15 working days after the due day of delivery. For standard parcel mail that has been redirected or diverted, delay compensation will only be paid where delivery was first made or attempted between 9 and 15 working days after the due day of delivery.

- Goodwill payments will not be made for both redirection failure and delay in respect of any item or batch of items redirected together.

## **Industrial Action**

In line with its standard terms and conditions Royal Mail will not pay compensation where the event occurs as a result of force majeure, including industrial action by its staff.

## **Additional exclusions**

Royal Mail's standard compensation exclusions will apply, and will also include (but not be limited to) the following (in addition to the exclusions put forward by Postcomm):

- No compensation will be paid for any mail posted outside the terms of the relevant Letter or Parcel Post Scheme or terms and conditions
- Royal Mail will not pay compensation on claims for delay (or loss based on arrival over 15 days late) from USO exception addresses receiving less than daily delivery unless the period of delay still qualifies once adjusted for the reduced delivery frequency. Where the arrangement for an exception address involves delivery to an alternative address or collection of mail from a Royal Mail office, delivery will have been completed when the postal packet is available for collection or delivery to the alternative address attempted.
- Royal Mail will not pay compensation for loss or damage where a customer has been notified that their delivery point is insecure or is likely to result in damage and has not made suitable alternative arrangements. Examples would be multiple delivery points with a history of loss issues or un-weatherproof customer-provided boxes.
- Claims for delay will not be accepted for items that have been forwarded from the delivery address marked on the item.
- Mail subject to PO Box delivery Mail Collect and Post Restante will not be delivered in the ordinary way. Delivery will have been completed when the postal packet is available for collection. Postal packets subject to Keepsafe will be exempt from any compensation for delay.

### Industry scheme proposal

The industry compensation scheme proposed by Postcomm on Postwatch's advice is effectively a penalty scheme for poor performance. There is no credit for good performance. Royal Mail believes that the scheme should reward achievement above target in a way that mirrors the penalty payments.

The scheme also exposes Royal Mail to potentially punitive levels of compensation, which could seriously impact on its financial position. This is in contrast to the capping of the quality element within the proposed price control formula.

The scheme does not take account of the level of precision with which performance is measured. The confidence limits for some products are not accurate enough to warrant a compensation payment for a small shortfall.

Royal Mail is prepared to accept a scheme of this nature but with a number of changes to address these points.

### **Payment levels**

To reflect the points above it is proposed that:

- There will be no payments for a failure under 1%.
- For a failure of up to 2%, customers should be credited 0.5% of spend for every 1% short of target.
- For a failure of over 2%, customers should be credited
  - 0.5% of spend for every 1% short of target, for the first 2%, and
  - 1% of spend for every 1% short of target thereafter.
- The maximum amount of payment should be capped at 5%, in line with the C factor proposals for the price control.
- Where a target has been exceeded by more than 1%, the corresponding amount of spend for that product should be added to the Price Control formula as an allowed increase in prices for those products to generate the equivalent revenue. For example, overachievement of all targets by 2% would be worth £60m in extra revenue. This will be assessed on the same basis as the penalty payments, i.e.
  - No credit for an overachievement up to 1% over target.
  - For an overachievement of up to 2%, a revenue credit of 0.5% of spend for every 1% over target

- For an overachievement of over 2%, a revenue credit of 0.5% of spend for every 1% over target for the first 2% and 1% of spend for every 1% over target thereafter.
- A cap at 5% of overachievement.
- The 5% cap on penalties would limit payments to about £150m pa. At present there is no upper limit on compensation under the industry scheme.

## **Exclusions**

There are no exclusions allowed under the proposed Postcomm scheme. Whilst some are not relevant, some allowance for force majeure and other exclusions should be made. Consideration also needs to be given to the state of the customer's account.

It is proposed that the exclusions would include (but not be limited to) the following:

- The impact of force majeure (as defined in the social scheme) – including industrial action - upon the industry scheme products should be calculated and the performance result used to pay compensation adjusted accordingly. This can be verified by the quality of service measurement auditors if required.
- Where an account customer was in default of credit terms, Royal Mail would retain the discretion to either a) delay payment of the credit until such time as the account was in order, or b) refuse the credit due to ongoing issues with the account.
- Revenue spend on postings that were not compliant with the product specification, e.g. presorted mail which has reverted to standard letter tariff, will not be included as revenue spent on that product for the purposes of calculating compensation.
- The scheme shall not apply to other service providers having third party access to Royal Mail facilities under Condition 9 of Royal Mail's licence. They will have individual non-standard contracts with Royal Mail that will contain their own arrangements in respect of liability. Their customers would also not be entitled to claim against Royal Mail under this proposed scheme.

## Review of Schemes

Postcomm's proposal recognises at paragraphs 3.41 and 3.42 that a new or revised compensation scheme will not necessarily be workable and effective from the outset and that interim reviews will be required prior to the first formal review under the Licence.

Benchmarking with other regulated companies indicates that a rise of up to 40% in complaint levels is to be expected following the establishment of a regulatory compensation scheme. However such companies differ somewhat from Royal Mail in the degree of evidence that exists of both purchase and problem. They are less vulnerable to spurious or fraudulent claims as there will be proof of any contract between them and the customer and also objective confirmation of whether a problem has occurred.

Royal Mail will review its complaint levels very closely following the introduction of any changes to its compensation scheme. In the event that complaint levels rise in excess of 30% above previous levels, taking into account any changes in underlying performance, Royal Mail will require an immediate review of the scheme.

If Royal Mail's position on Postcomm's vires were not accepted then for any changes agreed as part of a Postcomm scheme (which we do not accept is required), Royal Mail will require the Licence to include a mechanism for triggering an interim review.

The following section presents these proposals in a similar format to that used for the Postcomm scheme.

**Mr J RYates, member of the public**

I am writing this letter with regard to the proposal document – Review of Consignia plc's Price and Service Quality Regulation: A Compensation Scheme.

Even though section 3.30 suggests the requirement of the claimant to make a formal declaration of true and complete information and a Consignia warning that attempting to obtain money by deception could lead to prosecution, the Compensation scheme does not appear to take into account the fact that ordinary first and second class mail is not traceable through the system, so there is nothing to stop people making false claims for delay or loss, and may even encourage it to an ever increasing amount as word gets around about this easy way to get money from Consignia.

The proposed compensation scheme in my opinion is unfair and appears to undermine any opportunity for Consignia to run a profitable operation, and therefore with this letter I am making my objection to this proposal.

**Mr J R Yates**