

# postwatch

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26 June 2006

Dear Sarah

### Postcomm's Financial Penalty for Mail Integrity Failures

I am writing to reiterate Postwatch's support for Postcomm's decisive action in fining Royal Mail for mail integrity breaches in 2004/05.

In our letter of 9 March 2006, we welcomed the financial penalty but asked you to clarify the basis for Postcomm's assumption that, had Royal Mail used all reasonable endeavours to apply its mail integrity procedures, mail losses would have reduced by 50%. This has now been done, and we are satisfied that Postcomm's approach was a reasonable one.

Further, we do not consider the fact that the fine has been reduced from a proposed £11.38m to £9.62m to be material. We are content that it remains a substantial penalty and sends the right message to Royal Mail's management. We are anxious, however, that it not be reduced any further.

Yours sincerely

*lan*  
**Ian Leigh**  
Chief Executive

*Fran - for file*

*Sc*  
*29/6*

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9 March 2006



## **Royal Mail's Mail Integrity Procedures: Report on Review by Postcomm**

Following your letter of 14 February, Postwatch has now had time to consider Postcomm's report on its review of Royal Mail's mail integrity procedures.

We welcome Postcomm's proposal to impose a financial penalty on Royal Mail for the operator's failure to meet its obligations to protect the mail. This decisive action, after a thorough investigation, will send a clear message to Royal Mail that compliance, not complacency, is the order of the day, and should go a long way towards restoring customer faith in the integrity of the postal service.

We recognise that, having found Royal Mail to be in breach of its licence, the only penalty available to Postcomm was a fine. However, Postwatch continues to oppose fines as a matter of principle: it is nonsensical that any fine Royal Mail pays goes directly to the company's sole shareholder. It was customers that suffered as a result of Royal Mail's non-compliance; it should be customers that gain from any financial penalty.

Our only concern with the investigation is around the calculation of the financial penalty. Postwatch does not understand why Postcomm has taken the view that if Royal Mail was to have used all reasonable endeavours to apply its Mail Integrity Procedures at all times, mail losses would have reduced by 50% (to seven million items per year). This is still an alarmingly high number of items for

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customers, yet there is no explanation in the report as to how Postcomm arrived at this seemingly arbitrary figure and we believe that this needs to be explained in terms which consumers can interpret. Customers need to understand on what basis the regulator finds this level of loss acceptable. Clarification of this point is therefore essential.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Gregor', written in a cursive style.

Gregor McGregor.

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