

26 February 2015

Annual Plan Team
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London SE1 9HA

Dear Annual Plan Team,

Citizens Advice response to Ofcom's Draft Annual Plan 2015/16

As the statutory representative for consumers of postal services across England, Wales and Scotland, the Citizens Advice Service are pleased to respond to offer comments on Ofcom's Draft Annual Plan 2015/16.

The consumer advocacy bodies across the UK, Citizens Advice, Citizens Advice Scotland and the Consumer Council for Northern Ireland) work together to conduct research and build evidence on postal user needs and to deliver strategic projects that contribute to improving the operation of the postal market for all consumers by assessing the value of postal services across the universal service obligation (USO), mail and parcels.

We believe that Ofcom's proposals for ongoing monitoring of the financial sustainability of the universal service and quality of service are of importance given the ongoing internal and external factors affecting the UK postal market.

We are supportive of Ofcom's decision to undertake the following projects:

- a review of complaint-handling and redress schemes for consumers,
- completing reviews of postal common operational procedures (PCOP) and mail integrity codes (MICOP),
- a review of the parcels market,
- Royal Mail's progress on efficiency.

As Ofcom finalises the details of its plan for the next 12 months, it needs to continue to ensure that its view is focused on the likely future of the postal service and that its priorities in post include targeted reviews and robust monitoring.

Ongoing changes that will continue to impact consumers' experience of the market are:

- the continued importance and innovations of internet fulfilment and the related shift in dynamics of the postal market towards the competitive parcels segment,
- the potential increase in end-to-end competition,
- the decrease in mail volumes due to e-substitution, and
- the outcomes of Ofcom's review of access pricing and introduction of new zonal charges for access mail.

Complaint handling and redress schemes

The complaint-handling conditions stipulated by Ofcom provide the foundation for postal operators to build upon and represent the minimum requirements, which to some extent overlap with many principles of good complaint handling. The current consumer complaints handling standard¹ has not been fully reviewed since it was introduced in 2008. Given the changing structure of the postal market and the evolving needs of consumers, this is an opportune time to consider whether the current system is proportionate and works effectively in the consumer interest with regard to both regulated and non-regulated postal operators.

It is worth noting that the implementation of the Consumer Contracts Regulations 2013 provides recourse for consumers with parcels received from e-retailers, which is a significant portion of the parcels market where consumers interact with e-retailers as delivery initiators but may have limited scope to exercise choice on the options for service provider.²

In light of Ofcom's plans to review complaint handling and redress as set out in the 2014/15 Annual Plan, we undertook a review of complaint handling in the postal sector³ and found that broadly speaking regulated postal operators are adhering to those requirements set out in Ofcom's complaint handling consumer protection conditions. In response to the information requests we issued, the smaller operators were the only operators not fully compliant with the regulatory conditions. There is possibly a disproportionate burden of obligations on smaller operators. This is a potential area for further examination by Ofcom

We also found there was scope to improve the visibility of complaint procedures at access points for postal products and services and would be applicable to the universal service provider where post offices act as such an access point. Consumers also need clear information identifying the presence of and right to access the external redress scheme. Our preliminary review of POSTRS found a low number of cases likely due to low awareness of the scheme, restrictions on terms of reference and premature contact.⁴ Additional research has found there is a lack of consumer awareness around the option to seek recourse through an ADR scheme and it is important to ensure consumers are aware of their rights to seek resolution this way.⁵ The lack of consumer knowledge of the relevant ADR scheme may also influence consumer behaviour when choosing to pursue options for a complaint with the relevant postal operator if they are unaware that there is an independent body able to help them with redress if their complaint reaches deadlock.

Given this research we feel there could be several ways by which to improve complaint handling, such as requirements to identify common service or operational issues and to demonstrate that these have been addressed.⁶ We also found in our research into complaint handling in the postal sector that there was a lack of UK consumer research into experiences with complaint handling for postal items which we believe should be further developed and updated for the current market environment. We would be happy to further discuss with Ofcom how we could input into this area.

¹ Postal Services Consumer Complaint Handling Standards Regulations 2008. <http://bit.ly/1A1jTpH>

² Consumer Focus, Consumer Focus response to the European Commission's Green Paper consultation on an integrated parcel delivery market for the growth of e-commerce in the EU (2013) <http://bit.ly/1zauxsU>

³ *Delivering satisfaction: Complaint handling in the postal market* Citizens Advice and CCNI (2014) <http://bit.ly/1yaGW2O>

⁴ <http://bit.ly/1yaGW2O>

⁵ <http://www.communicationsconsumerpanel.org.uk/downloads/going-round-in-circles.pdf>

⁶ <http://bit.ly/1yaGW2O>

Overall given the findings⁷ of our complaint handling review, we feel that in Ofcom's review of complaint handling and redress it should seek to:

- Ensure design of regulatory tools seek to take into account consumers trends, tools and services
- Evaluate the appropriateness of the consumer protection conditions on regulated postal operators and non-regulated postal operators
- Establish clear criteria for assessment of POSTRS, such as benchmarking against similar redress schemes, assessing consumer awareness and evaluating the terms of reference

Furthermore, with the implementation of the EU ADR directive expected by July 2015, and the continued growth of the parcels market in addition to the high level of complaints with delivery in online cross-border transactions there is a need to review potential redress systems for parcel operators.⁸

As highlighted in the European Commission Green Paper on integrated parcel delivery⁹, there could also be the potential for increasing the scope of regulation to include parcel operators, and Ofcom should engage with the European Commission to assess the potential costs and benefits it has identified with increasing the scope of regulation to include parcel operators as well as the potential for a wider remit with respect to the following areas of the parcels market:

1. the Commission's recommendation that National Regulatory Authorities monitor and annually publish market data on domestic and cross-border parcel movements from all postal service providers active in the B2C and B2B parcel markets.
2. ensuring that the European Group of Regulators for Postal Services, of which Ofcom is a member, focuses on cross-border parcels by reporting on Quality of Service performance and conducting a review to determine if there is a market failure in cross-border parcel delivery markets that may require further action.

Potential review of end-to-end competition

In light of Royal Mail's previous regulatory submission to Ofcom on the threat to the universal service from end-to-end competition and the complaints from postal operators on Royal Mail's proposed prices for access services, we are satisfied with Ofcom's proposed activities.

While we recognise Royal Mail's ongoing concerns over the threat posed by other end-to-end operators,¹⁰ we agree with Ofcom that the slower growth rate¹¹ of end to end competition coupled with other factors such as the parcels market and Royal Mail's efficiency remain stronger threats to the financial sustainability of the USO.

It is our view that the universal postal service is most likely financially viable over the long term in a fully competitive market where all consumers and customers choose to use the universal service and

⁷ <http://bit.ly/1yaGW2O>

⁸ European Consumer Centres Network 2013 report highlighted that 15 per cent of problems in 2013 concerned the non-delivery of purchased products or services. <http://bit.ly/1eQAWPF>

⁹ European Commission, *Green Paper: An integrated parcel delivery market for the growth of e-commerce in the EU* <http://bit.ly/1LxGRfG>

¹⁰ Royal Mail, *Direct Delivery: A Threat to the Universal Postal Service, Regulatory Submission to Ofcom* (June 2014)

¹¹ *Ofcom Communications Market Report 2014*

purchase postal products which meet their specific needs.¹² Overall, the impact of competitors in the postal market has been to influence Royal Mail to innovate its service offering and be more responsive to consumer needs.¹³ Consumers still rely on and value the universal service as a communications tool and the USO acts as a critical safety net to avoid social exclusion and the potential lack of services due to market failure. As previous research by Ofcom and our predecessor organisations has shown¹⁴, access for vulnerable and rural consumers (at affordable rates) must be maintained as a requirement for the effective participation in the economy and potential lack of choice for other postal operators or reliable broadband access.

In order to maintain our ability to input into a further review of competition from the consumer perspective, and the rapidly changing nature of the postal market, we are conducting research into the impact of increased competition on consumers, assessment of assumptions and modelling in relation to increasing end-to-end competition and the impacts on consumer prices, levies, and service levels. We are happy to share the findings of our research and welcome Ofcom's input in further research on consumer needs and the USO.

We share the wider aim for a sustainable universal service and consider that if a market review identifies a material threat to the USO, as previously suggested,¹⁵ we would encourage Ofcom to continue to consider alternative mechanisms in the appropriate regulatory framework for end-to-end competition. This could include potentially tendering out loss-making elements, state aid or compensation fund arrangements.

Royal Mail's efficiency

We welcome Ofcom's decision to review progress on efficiency changes as mail needs to be considered in the context of the wider postal/communications and logistics market. This is especially important given the growth of e-substitution and e-commerce in the UK. We are also supportive of Ofcom's consultation into access pricing in order to ensure there is a level playing field for zonal pricing and have provided comment.

Review of parcels market

The UK postal market has undergone significant changes in recent years, with a shift in emphasis from a letter-based communications system to a logistics network geared towards parcels with large increases in parcel volumes and the use of fulfilment mail.

Consumers' dependence on parcels has been fuelled by the growth in online retailing, and the deliveries undertaken to fulfil orders made online. E-retail is now a significant market and Britons spent £104bn in 2014 online shopping¹⁶ with 920 million parcels dispatched by UK e-retailers.¹⁷ Although the majority of parcels sent to fulfil online orders are not sent using universal service products, Ofcom needs to closely monitor market issues, including the development of choice and competition for both residential and SME consumers given its growth and impact on the structure of the postal market as a whole.

¹² The Consumer Focus *Postal Market Review 2013* found that competition in mail collection benefits consumers by restraining price rises and fostering greater upstream efficiency, along with creating increased efficiency and innovation in the parcels market.

¹³ BIS Select Committee Submission into Competition in the UK Postal sector and the universal service obligation 2014

¹⁴ Consumer Focus *Sense and Sustainability (2012)* ; Ofcom *Consultation document on the reasonable needs of users in relation for the provision of postal services in the United Kingdom (2012)*

¹⁵ <http://bit.ly/11SfidY>

¹⁶ IMRG Capgemini e-Retail Sales Index 2015

¹⁷ IMRG MetaPack UK Delivery Index 2015

For those living in rural, remote and island areas, e-commerce can be particularly useful as these consumers are removed from the choice and convenience of traditional high street shopping. Consumer research continues to show that these consumers are more likely than their urban counterparts to see online shopping as essential.¹⁸ Yet several pieces of research¹⁹ have found that consumers living in remote and rural areas across the UK report particular delivery issues, including higher prices and companies refusing to deliver to them, excluding them an important market.

Given these concerns, it is important that Ofcom's review takes into account the different levels of access to the parcels market as experienced by different groups of UK consumers given their location and access to location points, different user needs and the presence and offerings of other operators, such as Collect +, DPD, Whistl, Yodel and MyHermes.

Citizens Advice would be happy to offer input as Ofcom assesses the impact of competition in the parcels market as we conduct extensive research on the consumer experience in this area. More broadly, we will continue to work with e-retailers, trade bodies and consumer groups to look for sustainable solutions to the problems experienced by consumers and to educate consumers on their delivery rights under the new Consumer Contract Regulations 2013²⁰ and best practices through the Statement of Principles for parcel deliveries.²¹

The European Commission's roadmap²² to complete the single market for parcel delivery is likely to have direct and indirect beneficial effects for UK consumers as it would help to improve interoperability between delivery operators and postal operators, increase transparency, and improve the quality and availability of affordable delivery solutions while also seeking to enhance complaint handling and redress mechanisms for consumers. We believe Ofcom has an important role in this action and should keep the roadmap in mind when taking a view to assess the changes in the parcels market which are occurring at the UK level and their interaction with cross-border e-commerce.

Review of mail integrity codes

We are pleased that Ofcom will now be undertaking its reviews of common operational procedures (PCOP) and mail integrity codes (MICOP), and previously responded to Ofcom's call for inputs in April 2013. Our position has not substantively changed and we note that Ofcom is committed to avoiding imposing unnecessary regulatory burdens, as set out in section 6 of the Communications Act 2003) and increasing the scope of such regulation in a competitive market could constitute such a burden.

With regard to any change, we would be concerned that any attempt to set identified standards would either result in an 'industry average' that could be unfair to some operators, or would lead to each operator having its own set of standards which could become incredibly time-consuming for Ofcom. Penalties established as means to address failures to meet the standards could result in uncertainty in the market and create perverse incentives for the industry to become less transparent. We also feel it will be important for Ofcom to consider how potential changes to complaint handling and redress that may result following their review, could relate to the MICOP and PCOP procedures.

We would be happy to offer input into any potential extension of MICOP as we conduct extensive consumer experience of the parcels market.

¹⁸ Consumer Futures (2013) *Signed, sealed...delivered?; Christmas Delivery rights campaign 2014*

¹⁹ Consumer Focus Scotland (2012) *Effective parcel delivery in the online era – what consumers in Scotland need*; Consumer Futures (2013) *Signed, sealed...delivered?*

²⁰ <http://bit.ly/1kg6J5c>

²¹ <http://bit.ly/17N3I7S>

²² European Commission (2013) *A roadmap for completing the single market for parcel delivery, build trust in delivery services and encourage online sales*

Other key issues

Monitoring of Quality of Service

We support Ofcom's ongoing approach to monitoring quality of service²³ which employs robust methodology and can include, if required, formal investigations should Royal Mail fail to meet targets in the future. Citizens Advice and Citizens Advice Scotland believe it is of ongoing importance to understand why some Post Code Areas regularly fail to meet the 91.5 per cent local First Class delivery target. This local target is in place to ensure that all consumers benefit from a minimum delivery service standard, but this is not met in all areas. It is also important for Ofcom to continue to investigate why Royal Mail constantly fails to meet the target of 99 per cent for its Special Delivery Next Day service, despite the high price for this premium service.

We will continue to contribute our knowledge through consumer complaints catalogued through Bureaux, the Consumer helpline and independent consumer research in order to contribute our knowledge of the consumer perspective on what a quality postal service would look like.

Relationship with Post Office Limited

With the recent separation of Post Office Limited from the Royal Mail Group and Royal Mail's operations as a private entity, Ofcom needs to remain vigilant to the relationship between Royal Mail and Post Office Limited. Consumers need a high quality and accessible postal service that meets their needs and allows them to make informed decisions about the postal products they require. In addition to these recent changes Consumer Futures research over a number of years indicates that consumers accessing universal service products via post offices cannot always rely on accurate and appropriate advice from counter staff.²⁴ As the representative for postal consumers across Great Britain, we continue to monitor consumer access to universal service products, including those offered via post offices, along with the advice given to consumers through Royal Mail and post office channels.

Monitoring of network changes

Although not explicitly stated in Ofcom's Annual Plan, given Royal Mail's ongoing process of network changes and Ofcom's June 2013 decision on post box criteria²⁵, we expect Ofcom to continue to monitor progress and investigate cases where Royal Mail does not adhere to the above density criteria.

It is very important that Ofcom monitors access criteria, as significant areas of the UK do not fall within these criteria and are therefore not safeguarded against the removal of local post boxes. We will continue to monitor post box density levels and will advise Ofcom of any shortfall following the installation of an additional 2,000 post boxes by Royal Mail.

The Citizens Advice Service will also be monitoring changes to collection times and expect Ofcom to put in place safeguards to ensure that the majority of mail is collected as late as possible in the day.

²³ <http://bit.ly/1b52Qg3>

²⁴ See Consumer Focus (2012) *Are you being served? – Service, accessibility and queues at High Street post offices*; Consumer Focus (2012) *Open all hours? – Consumer experience of, and service standards in, Post Office Locals*; Consumer Focus (2009) *Evaluating the quality of service and product advice in Crown and privately managed Post Offices*

²⁵ <http://bit.ly/1btBdb7>

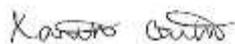
Our work over the coming year

We look forward to continuing to work constructively with Ofcom and encourage the regulator to take forward its 2015/2016 work programme in postal services through ongoing monitoring of the financial and operational performance of the universal service provider, ensuring that undue reliance is not placed on either increasing stamp prices for universal service products or lowering quality of service performance standards. We suggest regulatory review and activity should focus on:

- continued vigorous monitoring of Royal Mail's quality of service performance and investigation of any failures to meet targets
- comprehensive review and assessment of the consumer complaints handling and redress framework
- review of the parcels market and Royal Mail efficiency on financial sustainability of the USO
- close monitoring of the impact of end-to-end competition on the USO

Should you wish to further discuss any of the above, please do not hesitate to contact us.

Yours,



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