



Royal Mail's response to Ofcom's *"Postcode Address File Review"*

March 2013

Summary

Background

Ofcom were asked by Department of Business Innovation and Skills (BIS) to conduct a review of the ownership, current pricing, licensing practises, maintenance and management of the Postcode Address File (PAF). During 2012, Royal Mail worked with Ofcom providing comprehensive information for them to complete their review, published on 7 February 2013.

Our Commitment to PAF

Royal Mail has always taken its responsibilities and obligations in relating to PAF very seriously. Royal Mail plays a pivotal role in both the social and commercial fabric of the UK and is responsible as part of its USO for servicing the needs of 29 million business and private addresses every day. PAF is an essential enabler for Royal Mail's national delivery operation helping us to constantly update and refresh address information.

We welcome that Ofcom's report recognises the integral relationship between PAF and delivery of the Universal Service Obligation (USO). Without positive and progressive management of PAF, our operational ability to deliver the USO would be severely undermined.

However, we also recognise the importance that PAF plays as a vital dataset supporting and sustaining key parts of the UK economy and we are committed to its widescale availability at a fair price.

Royal Mail recognises the unique position it holds in owning a world class dataset and works freely with users of PAF to understand the changing needs of consumers, organisations and Government so that we can continue to provide access for those who want to use PAF. The introduction of the Public Sector Licence from April 2013 and the Developer Licence introduced in August 2012 are examples of Royal Mail responding to the needs of our customers.

Royal Mail is proud of our role in designing, developing and maintaining PAF, and the steps we have taken to continuously and consistently protect its quality. We have always worked collaboratively to ensure access to PAF meets the needs of the market, for all sizes and types of organisation.

PAF data is provided to both public and private sector bodies via an established licensing arrangement and our regular six-monthly customer surveys suggest a consistently high level of customer satisfaction across all PAF users. PAF is maintained by using the operational expertise developed over many decades, and by ongoing investment from Royal Mail both in terms of money and resource.

Royal Mail currently maintains, produces and distributes PAF to between 37,000 and 40,000 licensed users. The Address Management Unit ("AMU") is a ring fenced unit within Royal Mail which was set up specifically to deal with PAF. The special business and operational relationship maintained between the AMU and Royal Mail ensures that Royal Mail is treated in the exactly the same way as any other user of PAF. This relationship ensures that Royal Mail does not have any preferential access to PAF data or enjoy any special terms when licensing its use.

We welcome Ofcom's acknowledgement of Royal Mail's and more specifically the Address Management Unit's (AMU) ownership of the intellectual property rights associated with PAF and note Ofcom's view that the development of an alternative to PAF, although technically possible is not a viable proposition in the immediate future due to the substantial financial and operational input that would be required.

PAF Licences

We agree with Ofcom that our PAF licensing framework should be simple to understand and easy to access and it has always been our intention to ensure, by completing periodic and thorough reviews, that our licensing approach meets those standards and reflects the demands and needs of the market. Changes in the way data suppliers and users operate and how they access information have led to some of our 2010 licensing options not matching all of our customer's demands and we acknowledge Ofcom's conclusion that these current licence terms may not be optimal in today's market.

Our major licence review was launched recently and we're presently working with the market to understand current and future user needs. Our plan is to present the first range of options for licence reform later this year prior to inviting further consultation and discussion on our ideas. A revised set of new licence proposals will be presented to the market later during 2013 and we are building our plans to move to a new licensing regime in 2014/15. Our key objectives are to ensure we offer a broad range of licence options that are easy to access and fairly priced.

We are reassured that Ofcom's view is that a licence based approach is an appropriate mechanism for recovering the internal and external operating costs accrued in delivering PAF data. We would be happy to outline in detail the work that we are progressing to how it aligns with the recommendations contained in Ofcom's review.

Our detailed responses

The Ofcom Report focussed on five objectives:

- to ensure the licensing framework incentivises wider take up and use of PAF data;
- ensure the data is made easily accessible to customers and users on reasonable terms;
- ensure that the licensing terms are as simple and light touch as possible;

- drive efficiency in the maintenance and distribution of PAF, and;
- to ensure that the quality and integrity of the data is maintained.

To ensure the licensing framework incentivises wider take up and use of PAF data

We are committed to ensuring PAF is easily available to everyone who wishes to use it; from the smallest micro business to large corporate companies. In addition, we recognise the status PAF enjoys as a key national data set and we want to ensure wider take up of it within Government. We recognise the proliferation of uses for PAF in the economy and this is reflected in some new developments that we have specifically designed to increase the take up and improve the accessibility of PAF.

For example, we have been working in partnership with the Department for Business and the Ordnance Survey to design and deploy a faster, easier way for business innovators and developers to access free samples of PAF and Geo co-ordinated data. Our updated 'Innovator & Developer' web site went live in August 2012 and almost immediately attracted new interest in PAF and potential new uses from businesses, academics and data innovators. This initiative alone has vastly improved our information signposting and dramatically simplified the overall sign-up process to offer even greater access to PAF sample data.

In addition, we have recently announced an agreement with the Department for Business and Skills (BIS) to introduce a new Public Sector Licence for PAF use. This allows a potential 8,000 new public sector entities access and use of PAF without individually needing to pay a licence fee.

We're proud of these highly significant innovations; they will help to incentivise wider PAF use in the private and public sector. We believe they will in turn help to drive better defined and more efficient public services and help stimulate the creation and building of new data rich businesses.

It is in this context that our strategy is to develop even more innovative ways to use and access PAF that we welcome Ofcom's conclusion that the voluntary 8-10% profit cap restricts the development of new and profitable data solutions. Put simply, the profit cap acts as a dis-incentive to some cost reduction initiatives and within the ring fenced set up of the AMU adversely affects profit and loss accountability.

We believe the presence of Ofcom's regulatory oversight protects the market from any unfair pricing policies and our management of PAF delivery already regulates PAF supply at the optimum market price without the need for a regulatory cap.

However, we recognise and value the requirement for regulatory oversight and we agree with Ofcom that there may be other mechanisms that could be worth exploring, for example linking our licensing to a national price index to ensure we don't inadvertently disadvantage any customer from accessing PAF. We would welcome sharing and discussing any proposals in this area with our regulator.

To ensure the data is made easily accessible to customers and users on reasonable terms

We agree with Ofcom that we should continue our work to ensure that PAF is accessible on the best terms. To help us build the right kind of PAF licence for the future we are committed to working closely with the Postcode Advisory Board (PAB), which consists of a broad range of stakeholders representing a wide range of views. With their help we have developed and agreed a set of simple principles which we will use to help guide the development, consultation and implementation of any future changes:

- To minimise the levels of disruption to the market
- To simplify the existing terms and conditions
- Phased approach to any change implementation
- Sensible and reasonable management of any pricing changes
- Full communication and support for the market well in advance of any planned changes
- Continuous effort to encourage a cross section of input and to be transparent in terms of sharing and disclosing that input.
- Ensure that we maintain a fair balance between RM/ AMU's commercial expectations and the need to provide a reasonably priced supply of PAF for the market

In their Report, Ofcom confirm that our license based approach to supplying PAF data is an appropriate mechanism to support the recovery of Royal Mail/AMU's internal and external operating costs. It is reassuring to hear that Ofcom consider the current licensing and pricing arrangements as being reasonable, and that this approach does not generate an excessive level of profit.

In this context, and as already mentioned earlier in this response, we look forward to presenting our proposals for the future pricing and non-pricing terms under which PAF could be made available to the market.

To ensure that the licensing terms are as simple and light touch as possible

We have already mentioned how we regularly review our licensing approach and how this enables us to bring positive change into the market. A good example of how we do this is that following the launch of the new PAF licensing terms in April 2010, we were able to introduce a change based on moving away from our old systems based licensing and switching to new transactional and user based terms.

This transactional approach was developed in response to the market who wanted access to a 'pay as you go' or 'pay per click' option for small and medium sized businesses (SMEs). In addition, to further help in removing any potential barriers to using PAF, we re-aligned our pricing models further reducing the basic entry cost of PAF access for a typical SME from £150 in 2007 down to £75 in 2010.

We agree with Ofcom that we must continue to review and test our licensing approaches to ensure that they are transparent and simple to understand and this will be included in our current Licence review. We believe that our efforts in this area will work to ensure wider access to PAF data.

In terms of developing a licensing approach for PAF that really meets market demands we recognise the value and importance of working with the Postcode Advisory Board (PAB) to identify and test any alternative licensing, pricing and future investment proposals. We thank Ofcom for their suggestion that we evaluate the National Archives Government Licensing Framework as a potential point of best practice for future PAF licensing.

To drive efficiency in the maintenance and distribution of PAF

We agree that this is an important area for us to focus on. The AMU has already committed itself to a significant range of activities that are intended to improve the efficiency of PAF supply and the speedier distribution of data. We believe that these improvements will encourage greater PAF usage.

Some of those areas include:

- a joint initiative with PAB, local authorities and the Ordnance Survey (OS) to improve the speed and efficiency of the address creation and postcode allocation;
- operational studies on the use and viability of hand-held technologies that support the postcode 'change capture' process, and;
- improved methods of data supply and enhanced content – fast data transfer and daily UDPRN

We have also developed ways to improve and lift the understanding and uses of PAF with Royal Mail operational staff by:

- revamping our PAF induction materials for all new Operational staff;
- creating an 'importance of PAF' story which will be displayed in all 1400 UK delivery offices, and;
- the appointment of a dedicated manager to drive even greater levels of operational compliance and overall PAF awareness.

To ensure that the quality and integrity of the data is maintained

Our primary responsibility is to maintain the quality and integrity of PAF so it can continue to support delivery of the USO. Our critical relationship with Royal Mail Operations will continue to be underpinned by a series of robust Service Level Agreements and key resources will be put in place to ensure that a consistently high quality of data supply is maintained, for example the use of regional PAF champions and the recruitment of PAF integrity managers.

We are also required to maintain and provide an accurate and consistent supply of data for use by businesses in the UK.

We have over the past 50 years developed a world class data set that is regarded as a benchmark by most overseas administrations. PAF is built on a regularity of update and a high level of quality and accuracy that's supported through the daily vigilance and actions of over 60,000 Royal Mail delivery staff.

To consolidate our success and to further ensure the integrity and accuracy of PAF, we will continue to develop the range of data subsets such as Multi-Residency, Just Built and Not Yet Built in order to add further richness to the core PAF material.

PAF is already one of the only address file providers in the world to make daily updates available to its marketplace. We recognise that this daily supply of PAF has become increasingly important for those organisations that are involved in managing database and software solutions that support the fraud, credit and identity verification industry.

We recognise and accept that as our commercial use of PAF increases we have a clear responsibility to continue to invest, innovate and improve the quality, transparency and accessibility of PAF. In doing this we undertake to ensure that we continue to maintain a financially proportionate relationship with those people and businesses across the United Kingdom who rely on the availability and accuracy of PAF.

In conclusion

Royal Mail welcomes the findings and observations contained in the Ofcom report and the positive endorsement in it of Royal Mail /AMU's approach to managing and maintaining PAF.

Royal Mail/ AMU has a proven track record in the management of PAF and remains focused on its responsibility to maintain and enhance the quality of the file and to create additional value for users of the data.

We look forward to further developing and enriching the Postcode Address File and creating a new simplified licensing framework over the coming year that allows greater flexibility and encourages even wider usage of the data across all sectors.

Annex:

Our response to Ofcom's three specific questions:

Question 3.1: We welcome views from stakeholders on whether the setting of quality targets for PAF would be constructive. If so, would stakeholders find the publication of achievement against those targets helpful? Please state why.

Royal Mail /AMU has an established a Service Level Agreement with Royal Mail Operations which include quality targets to ensure that the Postcode Address file is updated on a consistent and organised basis.

Question 6.1: Do stakeholders agree with our analysis of the options for cost recovery against the principles of cost causation, and our proposal on cost recovery? Please give reasons for your response.

Royal Mail/AMU welcomes Ofcom's assessment that the current arrangements for recovering the internal and external costs associated with the management of PAF are appropriate.

Royal Mail /AMU accepts that the current licensing arrangement is an effective and established way of supplying PAF data to the market as this enables the transparent recovery of production costs. We are reassured that Ofcom's analysis considers that the arrangements that allow a reasonable commercial return are not excessive.

Question 7.1: Do stakeholders agree with our proposed approach to the terms on which PAF is made available, and our guidance on those terms? Please give reasons for your response.

Royal Mail/AMU acknowledges that the terms and conditions that are currently in place to support the licensing of PAF need to be refreshed to ensure that they reflect the changing demands and needs of the market.

It is our view that with the advice and support of PAB, we can further simplify our existing arrangements that govern PAF licensing. It is our intention to continue to build on the work already underway with PAB to ensure that our redesigned licensing framework meets the future needs of all businesses in the UK.