

# **Royal Mail's management of the PAF**

A consultation document

June 2004

## Summary

- S.1. Postcomm is carrying out a review of Royal Mail's management of the Postcode Address File (PAF). The PAF is a comprehensive listing of postal addresses within the UK that has been developed by Royal Mail over the last 40 years. Originally designed as a tool to help Royal Mail process mail more efficiently, the PAF has evolved so that it is now a resource used in many ways by postal competitors, and other stakeholders<sup>1</sup>. For example the PAF is used by postal competitors to plan delivery routes and sort mail, by the NHS to link patients with NHS codes and by the insurance industry to group and profile customers.
- S.2. The objectives of the review are to: (a) assess Royal Mail's performance against its statutory obligations, (b) ensure that the management structure for PAF does not present a barrier to the development of effective competition and (c) ensure that the management of the PAF is structured in the best way to further the interests of users. The review aims to establish whether the current management structures for the PAF represent a barrier to the development of competition for postal services, whether these structures are adequate or change is required; and, in the event that change is required, the extent and nature of the change.
- S.3. This document provides background information on the PAF and its application and discusses the importance of the PAF to postal competition and other stakeholders. Questions on which Postcomm would welcome comments include:
- How well does Royal Mail's performance in managing the PAF match up to its statutory and regulatory obligations?
  - What role does the PAF play in the development of effective competition for postal services?

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<sup>1</sup> For simplicity three broad PAF stakeholder groups are used, these are: "Royal Mail", "postal competitors" and "other stakeholders" (includes end users, value added resellers (VARs), Bureaux, contributors to, and subjects of the PAF)

- What opportunities for innovation and development exist with the PAF, with or without change to the current management structures?
  - Is the current management structure of the PAF appropriate, given the rapidly evolving applications for the PAF and a competitive postal market?
  - How might the management structure for the PAF be altered to better achieve swift introduction of new applications in a competitive postal market?
- S.4. The eventual outcome of the review is dependent on analysis of responses to this consultation. Possible recommendations resulting from this analysis range from retaining the status quo through to separation of the PAF from Royal Mail.
- S.5 The review arises from Postcomm's broad statutory duties, as stated in the Postal Services Act 2000 (the Act), including ensuring the provision of the universal postal service, promoting the interests of users of postal services, effective competition, and efficiency and economy on the part of postal operators. Further, Section 116 of the Act and Royal Mail's Licence specify duties unique to the PAF, concerning its maintenance and availability, which provide additional impetus for this review.
- S.6 The review is limited to the management and control of the PAF, including the way it is distributed to third parties outside the postal industry. The review will not consider:
- The operation of the Code of Practice (the Code<sup>2</sup>) under which changes may be made to particular addresses or groups of addresses held on the PAF.
  - The consistency (or otherwise) of the PAF with administrative boundaries, such as the allocation of "English" postcodes to Scottish or Welsh addresses.
  - The way in which the PAF is used in a non-postal capacity (except as this is relevant to the management and supply of the PAF).

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<sup>2</sup> Refer to Annex D

S.7. The process for implementation of any changes made necessary as a result of the review and relevant stakeholder comment, will be dependent on the nature of the change. Relevant considerations are outlined in Chapter 1.

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# 1. Introduction

## ***What is Postcomm?***

- 1.1 The Act established the Postal Services Commission (Postcomm) as the regulatory body for the postal services industry in the United Kingdom. Postcomm's Forward Work Plan, which can be found on its website [www.psc.gov.uk](http://www.psc.gov.uk), gives details of its duties, functions, objectives and work programme as required by the Act.

## ***Postcomm's statutory duties***

- 1.2 Section 3(1) of the Act requires Postcomm to "...exercise its functions in the manner which it considers is best calculated to ensure the provision of a universal postal service". The Act defines the universal service as including affordability of prices and geographical uniformity.
- 1.3 Subject to this duty, Section 6(1) of the Act requires Postcomm to "...exercise its functions in the manner which it considers is best calculated to further the interests of users of postal services, wherever appropriate by promoting effective competition between postal operators." Section 5(2) of the Act requires Postcomm, when performing this duty, to "...have regard to the interests of (a) individuals who are disabled or chronically sick, (b) individuals of pensionable age, (c) individuals with low incomes, and (d) individuals residing in rural areas...".
- 1.4 Subject to all of the above duties, Section 5(3) of the Act requires the Commission to "...exercise its functions in the manner which it considers is best calculated to promote efficiency and economy on the part of postal operators."
- 1.5 Section 5(4) of the Act requires that when Postcomm is exercising any of its functions in relation to licence holders under Part II of the Act it should "...have regard to the need to ensure that such licence holders are able to finance activities authorised or required by their licences."

## ***The Act and Royal Mail's licence, in relation to PAF***

- 1.6 Section 116 of the Act requires Royal Mail as "The owner for the time being of the Postcode Address File" to: (a) maintain the File, and (b) make the File available to any person who wishes to use it on such terms as are reasonable. Subsection (2) provides for Postcomm to take enforcement action in relation to non-compliance by Royal Mail.
- 1.7 Postcomm uses Condition 20 of Royal Mail's Licence as its initial mechanism for enforcing the PAF specific section of the Act. Royal Mail's Licence is publicly available and can be viewed on Postcomm's website [www.psc.gov.uk](http://www.psc.gov.uk)

## ***Objectives of the Review***

- 1.8 The objectives of the review are to: (a) assess Royal Mail's performance against its statutory obligations, (b) ensure that the management structure for PAF does not present a barrier to the development of effective competition and (c) ensure that the management of the PAF is structured in the best way to further the interests of users. The review looks back at Royal Mail's performance and looks forward to the future importance of the PAF and its management and control to postal competitors and other stakeholders.

## ***Objectives of this Document***

- 1.9 It is important that this consultation achieves certain fundamental objectives which form the basis for the PAF review. These objectives include:
- The provision of a high level introduction to the PAF and the relevant issues to interested parties. This will allow users and stakeholders of PAF the opportunity to contribute to the review and to ensure Postcomm is able to make informed proposals (in light of responses from users and other stakeholders).
  - Understanding the present and future issues for the PAF and identifying

what options exist to address these.

- Establishing whether there is scope for greater value creation from the PAF.
- Identifying and understanding the future opportunities and areas of innovation involving the PAF and understanding what is required to facilitate these.

1.10 The review is limited to the management and control of the PAF, including the way it is distributed to third parties outside the postal industry. The review will not consider:

- The operation of the Code under which changes may be made to particular addresses or groups of addresses held on the PAF.
- The consistency (or otherwise) of the PAF with administrative boundaries, such as the allocation of "English" postcodes to Scottish or Welsh addresses.
- The way in which the PAF is used in a non-postal capacity (except as this relates to the management or supply of the PAF).

Postcomm will ensure those who commented on the ownership and management of the PAF in response to Postcomm's recent consultation on the Code will be sent the consultation document for further consideration<sup>3</sup>.

### ***Implementing proposals***

1.11 In reviewing PAF against these criteria and assessing possible outcomes, Postcomm must consider the implications of implementing its proposals. Depending on the results of the consultation and on the proposals formulated by Postcomm, it is likely that one of the following implementation strategies will be pursued:

- Retain the status quo.

- Voluntary solution – an agreed solution not requiring an amendment to the existing licence or legislation, such as shared management control.
- Amend licence – either an agreed change or a change imposed by Postcomm<sup>4</sup>.
- Amend legislation – a longer term option, possibly required if fundamental change is recommended, such as separation of the PAF from Royal Mail.

1.12 Whatever proposals are made, a level of pragmatism will be retained to ensure that any change considered necessary is a positive change that benefits stakeholders and the overall quality of the PAF.

### ***Structure of this document***

1.13 The structure of this document is as follows:

- Chapter 2 provides background to the PAF, its development, application and governance.
- Chapter 3 looks at Royal Mail's management of the PAF including maintenance, terms of supply and industry dynamics.
- Chapter 4 draws attention to the increasing value and importance of the PAF to postal competitors and other stakeholders.

At the end of each chapter, questions relevant to that chapter are posed. At the end of Chapter 4 there are several questions concerning the future for the PAF more generally. In addressing these questions please provide examples, either theoretical or based on experience, to illustrate the answer.

### ***Timing and how to respond***

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<sup>3</sup> As indicated in section 5.40 of Postcomm's "Review of Royal Mail's Licence Condition 20 – Postcode Address File Code of Practice, A Decision Document", March 2004.

<sup>4</sup> A unilateral change to Royal Mail's Licence may be challenged by Royal Mail.

1.14 Responses to this consultation can be sent by post, e-mail or fax and should reach Postcomm by 5.00pm on the 30<sup>th</sup> September 2004.

Following receipt of responses Postcomm's planned timetable is:

- i. Publish proposals for comment – December 2004  
(responses by March 2005).
- ii. Publish outcomes of the review – summer 2005.

*It is possible that Postcomm will host informal discussions or workshops during the consultation period and shortly afterward may with the intention of debating issues that arise during the consultation.*

In parallel with the review, Postcomm will address other specific issues such as Royal Mail's proposed changes to the PAF licence.

1.15 Responses should be sent by post to:

Jeremy Cain  
Postcomm  
Hercules House  
6 Hercules Road  
London SE1 7DB

Or, alternatively, by e-mail to: [paaf@psc.gov.uk](mailto:paaf@psc.gov.uk) (or fax, to: 020 7593 2144).

1.16 If you would like to discuss any of the points outlined in this consultation document please contact Jeremy Cain (on 020 7593 2149) or, Tom Balogh (on 020 7593 2141).

### **Confidentiality of responses**

1.17 Postcomm wishes to make public the responses it receives to this document. If you do not want all or part of your response to this document to be read by anyone outside Postcomm, please ensure your response clearly indicates which parts are confidential.

1.18 If you are happy for the substance of your contribution to be made public, but do not want the name of the individual who signed it or

organisation who submitted it to be revealed, please indicate this by adding "name of organisation/sender not to be published".

## 2. What is the PAF and how is it used?

### **Chapter outline**

2.1 This chapter provides an introduction to the PAF and gives examples of its application in a postal context and its wider commercial applications. It also provides key facts and figures relating to the PAF and postcode use.

### **PAF and PAF®?**

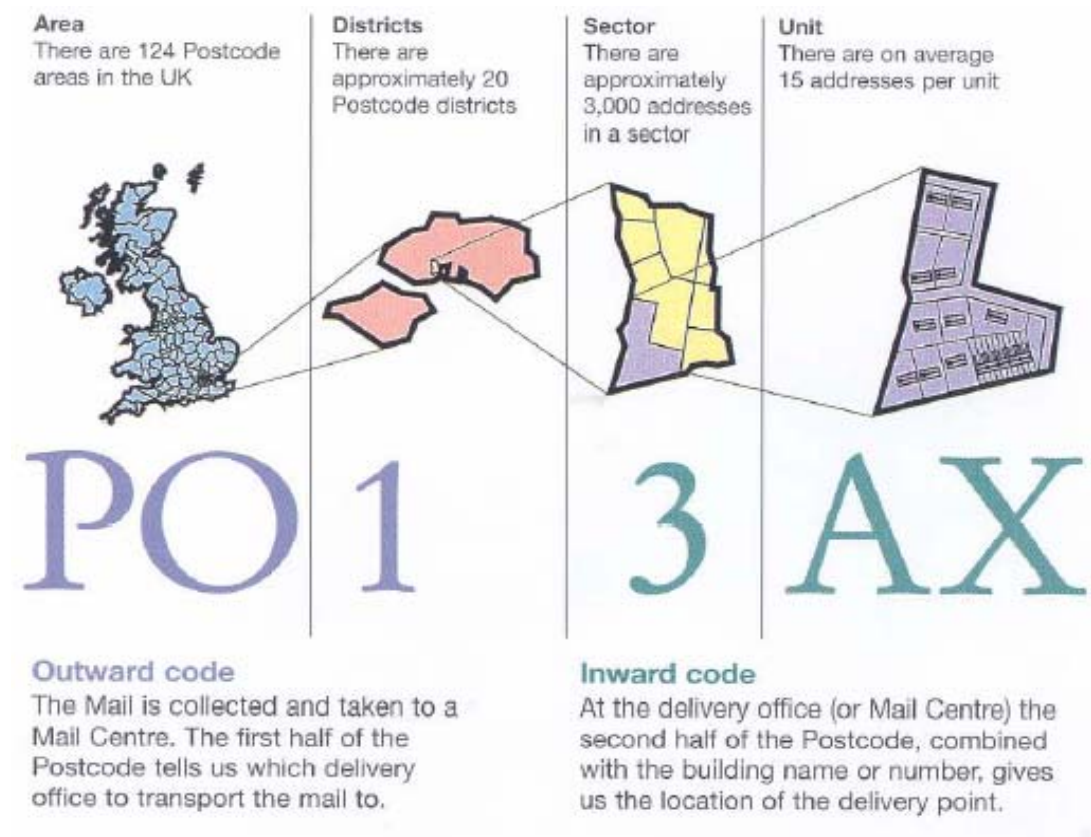
2.2 The "PAF", as utilised by Royal Mail is different to PAF® (as licensed by Royal Mail). The PAF contains additional information not included in PAF®. Such information is necessary for mail processing and is either confidential in nature or without commercial value. It is Postcomm's understanding that this information is quite limited and mainly used for the sorting of mail. To avoid undue confusion, Postcomm has not distinguished between the two databases and in referring to "PAF" is in fact referring to whatever database is appropriate – the PAF for Royal Mail use, PAF® for licensees. Postcomm recognises the additional information available to Royal Mail may be of some value to postal operators and would welcome comment on the issue.

### **About the PAF**

2.3 The UK postcode system was developed by Royal Mail in the 1960s to allow it to sort mail more efficiently and to cope with both population growth and increasing mail volumes. The efficiency is achieved by using the one line postcode as a shortcut for the full postal address – which may be several lines. Mail with a postcode can typically be sorted more quickly, accurately and efficiently than mail without a postcode. The alpha-numeric combination used in the UK postcode structure has proved robust, resilient and easy for mail users and the public to remember. The postcode is an integral part of the Addressing Standards published by Royal Mail.

2.4 Diagram 1 shows the postcode structure and the breakdown between the components of the postcode.

Diagram 1: Postcode structure



(Source: Royal Mail)

2.5 The PAF is the central database, owned and managed by Royal Mail, which holds all the postcodes and postal addresses in the UK. (Note: some “non-postal” addresses such as churches are not included in PAF). Key facts and figures about the PAF are provided in Table 1.

Table 1: PAF facts & Figures

- There are 27.5M addresses on the PAF – every business and private address in the UK.
- There are 1.7M postcodes or, on average, 1 for every 15 UK addresses.
- The Delivery Point Suffix (DPS), a two digit suffix to the postcode in the PAF, makes it possible, using PAF, to identify every individual UK address<sup>5</sup>.

<sup>5</sup> The DPID is not widely utilised currently.

- The alpha-numeric structure of the postcode makes postcodes easier to remember, facilitating better postcode use.
- The PAF contains business names but not the names of individuals (unless there is no way of identifying the correct delivery point).
- The PAF is the most complete publicly available UK address database.
- The UK has one of the highest levels of postcode use in the world.
- There are approximately 100,000 changes to the PAF each month.
- Royal Mail licenses around 30,000 PAF licensees, mainly organisations. It is thought many times this number actually use the PAF.
- The PAF is considered one of the most comprehensive and valuable postcode systems in the world.

(Source: Royal Mail)

2.6 Royal Mail has done much over the past 30 years to develop and maintain high levels of postcode “compliance”, that is correct use of a postcode on mail. The level of postcode compliance has a direct influence on Royal Mail’s mail processing efficiency.

### ***What is the PAF used for?***

2.7 PAF stakeholders fall into three broad groups: Royal Mail, postal competitors and other stakeholders (including other stakeholders such as valued added resellers (VARs), “Bureaux”<sup>6</sup>, end users of, contributors to and subjects of the PAF). The key applications each stakeholder group has for the PAF are set out in this section.

#### Uses for the PAF – Royal Mail

2.8 Royal Mail utilises the PAF in many ways within its core mail operation, to assist with efficient sorting and delivery of mail, but also in administrative and support activities. The main uses are set out in Table 2.

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<sup>6</sup> Bureaux do not resell PAF but validate customer address databases using PAF data which they hold licences for.

Table 2: Royal Mail PAF applications (source: Royal Mail)

- Address Interpretation (AI) – AI scans an address and looks for a match within the address directory (PAF) to identify the correct destination for the letter.
- Optical Character Recognition (OCR) – older sorting technology though with a similar address reference application of the PAF.
- DORIS – uses the PAF to help produce walk logs, sorting frame labels, and delivery walk revisions for delivery offices.
- Aramis – uses the PAF to reference address checks for the Returned Letter Branch in Belfast.
- As the reference to link customer service calls with delivery office, which helps reconcile and address customer service issues.
- To build the Walksort and Mailsort databases (bulk mail services) used by large mailers for pre-sorting bulk mail.
- Postcodes online, postcode address books and postcode helpline are used to promote use of correct postcodes.

2.9 Royal Mail is reliant on the PAF not only for the sorting and delivery of mail but for many of its core products and support functions.

#### Uses for the PAF – postal competitors

2.10 The PAF is considered by Royal Mail's postal competitors, especially those with a physical delivery network, as vital to their success. Though involving different software, the practical applications for the PAF are similar to Royal Mail's. These are set out in table 3.

Table 3: Postal competitor applications for the PAF

- Streaming of mail and manual / mechanised sorting of mail.
- Managing postal delivery walks and delivery systems such as sorting frames, walk books, delivery sequence (and changes to these).

- As an address look up tool for customer services, mail processing and delivery operations.
- To link customer service and operational systems to identify the right person to deal with a particular issue.
- For bulk mail software enabling customers to pre-sort bulk mailings.

While some operators may have existing address code systems, most rely on the PAF to support their mail processing and delivery systems. A proliferation of address codes and structures may lead to confusion amongst postal users and an overall decline in address quality.

#### Uses for the PAF – other stakeholders

2.11 Many uses for the PAF have been developed since the PAF was first used commercially, and applications continue to evolve rapidly. Key applications are shown in Table 4.

Table 4: Other applications for the PAF

- Used for a variety of purposes by local and central Government for example by the NHS to match patient records and by the local Government to help manage the Electoral Role.
- Address “validation<sup>7</sup>” – mailers validate addresses by checking against the PAF. The PAF is also used via “Walksort” and “Mailsort” software to pre-sort bulk mailings.
- Address look ups – using the postcode as the unique identifier, PAF based applications reference the PAF to identify the correct postal address.

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<sup>7</sup> Refers to the “validation” of address data against the PAF equivalent address.

- Mapping applications – using the postcode as the unique identifier, applications cross reference against a grid reference to pinpoint a geographic location.
- Credit or geo-demographic profiling – using PAF data linked to credit, financial or 'lifestyle' data to create customer profiles based on postcodes.
- Distribution – to facilitate efficient distribution of mail, goods and services.

2.12 Other stakeholder applications for the PAF are developing rapidly. With this growth comes increased reliance on the PAF.

**Postcomm would welcome respondents' comments in response to the following questions:**

- **Postcomm knows the PAF is important to Royal Mail and believes it is important to postal competitors and other stakeholders. Just how important is the PAF to Royal Mail, postal competitors and other PAF stakeholders?**
- **What roles does the PAF play in the development of postal competition?**
- **Maintaining address quality is important for the efficiency of the postal industry as well as for the benefit of other stakeholders. Would the introduction of alternative postal addressing / coding systems have an impact on overall address quality?**

### 3. How is the PAF managed today?

#### **Chapter outline**

3.1 This chapter outlines market structure and dynamics, how the PAF is maintained, key contributors to the PAF, and the terms of its supply.

#### **PAF ownership**

3.2 The Act<sup>8</sup> acknowledges the Post Office (Royal Mail) as the owner of the PAF and provides for that ownership to continue. A change to the Act may be required to alter the ownership of the PAF.

#### **Industry structure & dynamics**

3.3 Royal Mail does not usually have a customer relationship with end users of the PAF<sup>9</sup> (though it does retain, via value added resellers (VARs<sup>10</sup>), a contractual relationship). Customer relationships are typically handled by VARs who deal with end users and Bureaux. Royal Mail maintains a customer relationship with VARs who resell the PAF on its behalf.

3.4 The market for value added services is very competitive with an estimated 140 different companies competing (there is a smaller number of large players). VARs competing in this market use other datasets such as Ordnance Survey data in addition to the PAF but the PAF is considered the most vital data resource.

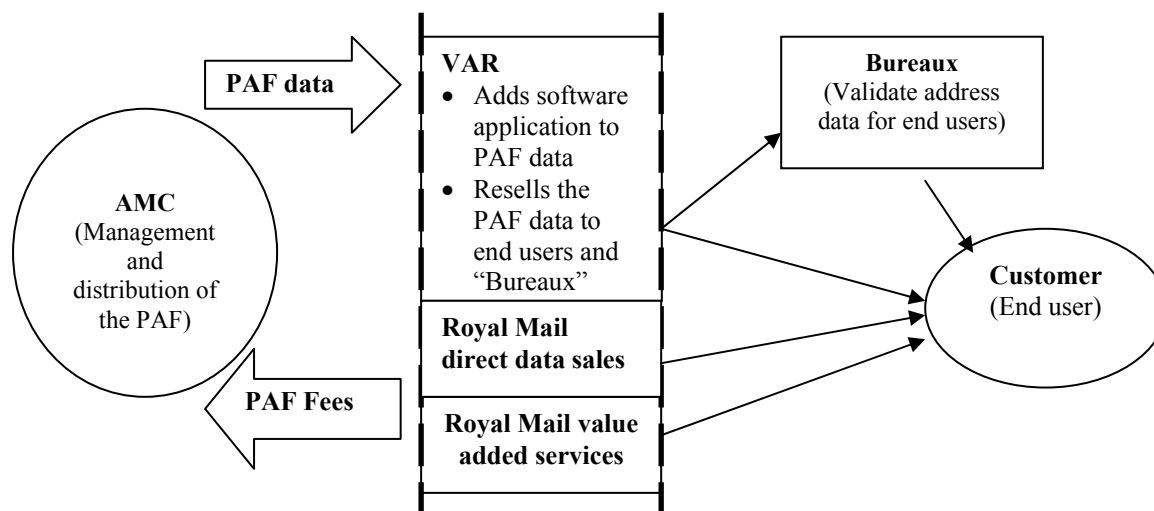
3.5 Diagram 2 illustrates the market relationships in respect of PAF licensing and distribution. Three services / functions are represented: PAF data licensing, value added software and Bureaux services showing the respective position and role of Royal Mail, VARs and Bureaux, in relation to the production / supply of the PAF and the end user.

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<sup>8</sup> Refer to paragraph 1.6 for further detail on the Act, or [www.psc.gov.uk](http://www.psc.gov.uk) to view the Act.

<sup>9</sup> Though RM does have a direct relationship with a relatively small number of end users.

Diagram 2: PAF Supply Relationship



3.6 It is not uncommon for end users, particularly large users, to have relationships with more than one VAR. There is at present no central register of licensees. Some VARs are concerned that this lack of coordination means some users may overpay licence fees.

3.7 Royal Mail controls the maintenance, production and supply of the PAF. Royal Mail wholesales PAF data to VARs and retails the PAF data directly; Royal Mail also acts as a value added reseller of the PAF providing PAF based software products to compete with VARs.

3.8 Some VARs are concerned about Royal Mail's activities in the value added market fearing that there may not be adequate internal separation between business units.

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<sup>10</sup> VARs take PAF (amongst other datasets) and develop software that adds value to the data.

### **Terms of supply**

3.9 There are approximately 30,000 PAF licence holders. These include a combination of individual, company & multi-server licences; most PAF licences are held by businesses. Table 5 sets out the licence types and their respective costs. Further information regarding the PAF licence charges is provided in Annex A of this consultation.

Table 5: Outline of the PAF licence structure and prices

<b>Licence Type</b>	<b>Description</b>	<b>Fee</b>
Corporate (rescinded by Royal Mail 2003)	For a corporation and its subsidiary companies.	£18,000
Multi-system	One company multi-server licence.	£9,000
System	One company single server.	£3,000
Single user	Individual user, single work station.	£150
Remote Access	Access to PAF via the internet or Directory Enquiries.	½ penny per click (£3K max)

3.10 In 2003 Royal Mail removed the Corporate Licence from its suite of PAF licences. This affected the terms, conditions and price<sup>11</sup> that these users were given access to the PAF on. Royal Mail was, at the time of publication, in the process of changing the terms and conditions of the PAF licence. Refer to Annex 2 for further information.

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<sup>11</sup> Postcomm believes that this change generally resulted in an increase in the amount paid by these users to Royal Mail.

3.11 It should be noted that, although there are approximately 30,000 licences, the number of end users is considerably higher, particularly if the licence is a server or multi-server licence, having hundreds or potentially thousands of users. In addition, many licensees use their licence to complement a public offering, for example, map referencing via the internet where the postcode is used as the unique reference.

3.12 In addition to licensed users, many small businesses and individuals access the PAF via the following freely available channels:

- Postcode Address Books (PABs);<sup>12</sup>
- Postcodes online ([www.royalmail.com](http://www.royalmail.com)); and
- Postcode Enquiry Line.

### ***Maintaining the PAF***

3.13 Maintenance and update of the PAF is managed by Royal Mail's Address Management Centre (AMC). Five regional address management service centres (AMSC's) consolidate information provided by Local Authorities, customers and Royal Mail's postal staff and link with the AMC to update the PAF.

3.14 Three sources of address information are used to update the PAF:

- Customers of Royal Mail, who contribute approximately 40% of updates to the PAF.
- Royal Mail postmen, who contribute approximately 56%.
- Local Authorities, who contribute approximately 4%.

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<sup>12</sup> Royal Mail intends to cease production and distribution of PABs in the near future.

- 3.15 The PAF contains approximately 27.5 million address records. These are constantly being updated to accommodate physical address changes such as new builds, alterations or demolitions, or virtual address changes such as recoding existing addresses, normally where the existing postcode has been exhausted. Royal Mail estimates that there are approximately 100,000 of these updates to the PAF each month.
- 3.16 The PAF is updated continuously. Updates are available via Royal Mail's website for PAF users on a daily basis or are provided via other electronic media, such as CD, to VARs and end users on a monthly or quarterly basis.
- 3.17 Maintaining an accuracy level of 100% for the PAF would be difficult, if not impossible, and may not be economically viable. The PAF is currently estimated to be 95-97% accurate and though 3-5% represents a large number of inaccurate addresses, most of the "inaccuracies" are minor and do not prevent delivery of mail. Postcode inaccuracy may however affect the value and applicability of the PAF to non-postal users as further checking and referencing against other address databases is required to verify a postcode's accuracy.

**Postcomm would welcome respondents' views on the matters covered by this chapter, in particular:**

- **Royal Mail manages the maintenance of the PAF and is one of the main contributors to PAF in terms of address change information, together with customers and Local Authorities. How well has Royal Mail performed with regard to the maintenance of the PAF and the overall quality of the PAF as an address database?**
- **The Act and Royal Mail's licence requires that PAF be made available on reasonable terms. How reasonable are the current terms of supply for the PAF?**

- **Postcomm has found it difficult to establish how important the PAF is to small businesses and consumers and the extent to which the needs of these users are being met. How important is PAF to small businesses and consumers and are the needs of these users well catered for?**

## 4. The increasing importance of the PAF

### **Chapter outline**

4.1 This chapter summarises the increasing and varied use of the PAF by other stakeholders. It also considers the importance of the PAF as part of the postal infrastructure in a competitive postal market. The chapter introduces concerns raised by competitors, users, VARs and other stakeholders of the PAF.

### **The value of PAF**

- 4.2 Though the PAF has been used by Royal Mail since the 1960s, it was not until the mid 1980s that the benefits of this national address and postcode database were first realised by industry. Since this point, however, the market and applications for the PAF have developed rapidly. There are now approximately 140 VARs and 30,000 PAF licensees.
- 4.3 Many users now rely heavily on the PAF, particularly those with core operating systems built around the PAF. Any change to the provision of the PAF, such as the terms and conditions, may have consequences for these users well beyond the actual cost of the PAF licence. The removal of the Corporate Licence in 2003 gave cause for concern amongst the large users of the PAF. Further changes proposed by Royal Mail (see Annex C) relate to the scope of the PAF licences and the use of PAF validated address information. Some VARs have expressed concern about these changes and PAF users may also have concerns.
- 4.4 The fees that Royal Mail receives for licensing the PAF are confidential. It is estimated that 15% of VAR turnover is made up by PAF licence fees<sup>13</sup>. The VAR market, estimated at over £100m, is growing rapidly. Bulk mailers receive postage discounts for pre-sorting large mailings by postcode areas using PAF based software. The value of the postage

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<sup>13</sup> Research conducted by Arthur D Little consultants for Postcomm.

discounts, the efficiency afforded to Royal Mail through pre-sortation of mail and the proportion of this value that is attributable to postcodes is difficult to quantify. Although Royal Mail has been unable to provide an estimate of the efficiency gains that PAF provides, it is known that Royal Mail processes approximately 22 billion items annually. Therefore even conservative estimates about the value of PAF - in terms of internal PAF based systems and bulk mail discounts - and to Royal Mail, would well exceed the relatively small costs of maintaining and distributing the PAF.

### ***A new postal market***

4.5 The UK postal services market is now partially opened to competition, and full opening of the market is scheduled to take place between now and 2007. Though competition for postal services will take different forms, most competitors expect to have some reliance on the PAF, in particular those operators with physical delivery networks. While some operators may wish to develop in part or whole their own addressing systems, it is likely that most will use the PAF. There are three broad reasons for this:

- Firstly, the PAF is a high quality address coding system and replicating the PAF would be costly and difficult with potentially no material gain in quality.
- Secondly, a proliferation of address coding systems might create customer confusion and lead to lower address quality generally and, therefore lower efficiency for the postal industry.
- Finally, it is important for competition that customers can switch between suppliers without undue cost. Forcing customers to change addressing systems may discourage switching.

4.6 Postal operators use the PAF in much the same way as Royal Mail to manage their sorting and delivery systems (as set out in Tables 2 & 4 above). Without access to the PAF on the same terms as Royal Mail, postal competitors may be at a competitive disadvantage to Royal

Mail. A feature of competitive postal markets internationally (see Annex C) appears to be access to the PAF on equal terms by all postal operators for example in Sweden, giving them the ability to contribute to the maintenance and strategic direction of the PAF.

- 4.7 Although postal competition is still young, current and potential competitors have highlighted the PAF's importance to their ability to compete effectively. Postcomm understands that beyond the reserved area<sup>14</sup> the PAF is widely utilised by parcel and express operators.
- 4.8 In relation to industry standards for addressing, BS7666<sup>15</sup> which is the standard for geo-spatial referencing is the closest recognised standard. BS7666 is wider than the simple postal address as it incorporates all addressable objects, not just those to which mail is delivered. For example it will cover vacant lots and street furniture which are not covered by the PAF. The PAF is not fully compliant with BS7666 because it gives preference to a postal reference over the geographic reference; this is illustrated where the correct geographic address is some distance from the correct postal address because the "post town" is different to the town where the address is. In the past, BS7666 has referred to the PAF as the standard for postal addressing and consequently is regarded as the de-facto industry standard for postal addressing<sup>16</sup>.
- 4.9 The PAF may usefully be benchmarked against other resources with a similar shared usage. Similar resources within UK industry include for example the OSIS directory in telecoms, while other countries have their own postcode address files. Looking at different situations may help identify possible outcomes for the PAF and help identify lessons we can learn from the experiences of others. Annex C provides an overview of some relevant examples from UK industry and abroad.

### ***Current concerns with the status quo***

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<sup>14</sup> Items weighing over 350 grams or costing over £1 to deliver.

<sup>15</sup> BS7666 – spatial data-sets for geographic referencing.

<sup>16</sup> Source: Royal Mail.

4.10 While this document is a consultation to establish the views of stakeholders in relation to the management of the PAF, it may be helpful to outline at a high level the main issues already raised by stakeholders concerning the existing management of the PAF. These issues are summarised below.

Issues raised by PAF stakeholders to date

- Some postal operators are concerned that Royal Mail has total control over the development, maintenance, and supply of the PAF.
- Some VARs and users are concerned about Royal Mail's proposed changes to the terms of the PAF licence (under consultation at the time of publication – key points set out in Annex B).
- Some VARs, users and postal operators have criticised the time taken to update the PAF to reflect address changes such as new subdivisions.
- Some VARs feel that the PAF User Group is limited because it has no influence over Royal Mail beyond exerting “gentle pressure”.
- Some VARs feel that Royal Mail staff lack technical capability and that this leads to communication failures between customers, VARs and Royal Mail.
- Some VARs have criticised Royal Mail for responding too slowly to new technologies and applications for the PAF – such as use of the PAF via the internet.
- Some VARs and large PAF users are concerned about Royal Mail's recent removal of the corporate licence.
- Several VARs have criticised the administrative process for licensing the PAF to end users as being time consuming and out of date.

Note: These are the main concerns raised to date by stakeholders of the PAF. They have not been investigated or verified by Postcomm. Concerns raised in relation to the Code have not been covered here.

4.11 Postcomm is concerned that Royal Mail believes it appropriate to introduce significant change to the terms of supply of the PAF without consulting Postcomm<sup>17</sup>. This is particularly relevant in respect of current proposals where Postcomm was alerted by industry stakeholders concerned about the impact on PAF users of the proposed changes.

4.12 Any possible alternative to the status quo should recognise the important role that Royal Mail has had both in the development of PAF and in maintenance of the PAF today.

**Postcomm would welcome respondents' views on the matters covered by this chapter, in particular:**

- **This chapter has focused on the perceived growing importance of the PAF to postal competitors and other stakeholders. To what extent is the PAF likely to be more important in the future than it has been until now? What would the implications be for these stakeholders if the PAF was no longer available?**
- **To what extent are the stakeholder concerns introduced in this chapter valid? Are there concerns that have not been covered? If so please support with examples.**
- **To what extent does the status quo present a barrier to the development of effective competition for postal services?**

***Looking to the future of the PAF (general questions):***

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<sup>17</sup> Royal Mail has stated that it believes it has no obligation to consult with Postcomm over changes it makes to the terms and conditions on which the PAF is made available.

An important part of the review is looking forward to the future applications and opportunities for the PAF. The recommendations made by Postcomm as a result of the review must take these applications and opportunities into account and must be made with the ultimate objective of ensuring the statutory obligations with regard to PAF are met and protecting the future interests of the stakeholders of the PAF. The questions posed below aim to stimulate debate and on the most appropriate management structure for the PAF.

- **Is the current management structure sustainable given the introduction of competition and the increasing reliance upon PAF (by postal competitors and other stakeholders)?**
- **What lessons can be learned from UK industry and internationally with regard to other PAFs?** (refer to Annex C)
- **The purpose of this review is to identify the best way forward for the PAF, bearing in mind Royal Mail's Licence, Postcomm's statutory duties and Royal Mail's important role in the development and maintenance of the PAF. What steps are necessary to achieve this?**
- **What possible licensing and pricing structures are there for the PAF? Why are these preferable to the existing structures?**
- **What opportunities for innovation and development exist with the PAF, with or without change to the current management structure?**

If you feel a particular issue that might have a bearing on the future of the PAF has been overlooked, **other than issues covered by the PAF Code of Practice**, please raise the issue in your response. Postcomm is aware that the PAF is an important resource with many applications and future opportunities. We welcome observations as to what these opportunities might be and what is required, within the regulatory framework, to realise them.



## Annex A: Royal Mail's PAF Licence Structure & Fees

Royal Mail's PAF licence structure comprises two parts; firstly supply to the VARs of the core PAF data, and secondly, resale of that data to end users. A simpler pricing structure exists for the resale of PAF data to end users; this is set out in Table 1. For the supply of PAF data there are a number of frequency and media options open to the VAR, these are set out in Table 2. End users of the PAF (typically) receive the PAF data and any updates via VARs. The actual fees for updates are not specified and are likely to vary between VARs.

Table 1: PAF end user licence costs

Licence Type	Description	Fee
Multi-system	One company multi-server licence.	£9,000
System	One company single server	£3,000
Single user	Individual user, single work station	£150
Remote Access	Internet licence	½ penny per click (£3k max)

Table 2: PAF data supply costs

PAF Supply Option	Online via the Internet	Compact Disk	DAT – DDS3	IBM 3490e cartridge
1 complete edition and 3 quarterly updates	N/A	£1,700	£1,700	£1,700
1 complete edition and 11 monthly updates	£1,700	£1,700	£1,700	£1,700
1 complete edition and daily updates	£3,250	£3,250	£3,250	£3,250
4 quarterly complete editions	£2,000	£2,000	£2,000	£2,000
12 monthly complete edition	N/A	£6,000	£6,000	£6,000
4 Quarterly updates	N/A	£1,200	£1,200	£1,200
12 monthly updates	£1,200	£1,200	£1,200	£1,200

Daily updates	£2,750	N/A	N/A	N/A
<b>PAF Extract</b> (per 200,000 Delivery Points) Minimum Data Supply Cost = £600.00	£150	£150	£150	£150

To receive and use the PAF you will need to pay an annual licence fee linked to the number of users you have, plus a charge for the supply of the data. There are three types of licence: Single User, System or Multi-system.

**Single User** – this is used where data is held on one system and there are fewer than 20 users with access to the data. A licence is required for each user with access to any part of the data.

**System Licence** – this is an alternative licence for single organisations with 20 or more users. The amount payable is according to the data category supplied. Separate licences are required for each system (including satellite systems) on which data is used, and for each category of data being used.

**Multi-system Licence** – this is available to an organisation as an alternative to holding three or more System licences and for each category of data being used. All prices are per year and exclude VAT.

Further information relating to the PAF licence and update fees is available on Royal Mail's website [www.royalmail.com](http://www.royalmail.com). Information relating to the terms and conditions on which PAF is supplied are also displayed on Royal Mail's website at <http://www.royalmail.com/portal/rm/content1?catId=400085&mediaId=1400099>.

## **Annex B: Proposed changes to the PAF licence**

Postcomm understands that Royal Mail is currently, consulting VARs and end users about the nature effects of the proposed changes. **Royal Mail has provided the following statement:**

*"The current VAR Agreement has been in place since 1995, during which time the use of PAF in the marketplace has become essential in many business disciplines outside of address management. For example, it is a common occurrence to have postcodes dictating insurance rates, for postcodes tied to grid references for "where's my nearest" applications or for use in marketing demographics. The current agreement has had to be used to manage the developments of these products, but interpretation of the current guidelines is being severely stretched as new, more innovative solutions come to market.*

*Royal Mail has therefore been consulting with the VAR community to identify new applications/uses of PAF and the licensing conditions/terms that would be most suitable.*

*So far the following uses/applications have been identified:*

- *Existing AM Market*
- *Digital*
- *Remote*
- *Directory enquiry services*
- *Bureaux activities.*

*Terms and conditions have not yet been finalised. Royal Mail will conduct a further period of 'open' consultation to capture any further uses and approaches to licensing."*

Postcomm recognises the rationale for changing the manner in which PAF is licensed to better cope with changes in usage. Postcomm is concerned that changes to the terms and conditions upon which the PAF is supplied be subjected to robust scrutiny prior to introduction, particularly where changes have a material effect on users. Postcomm is working with Royal Mail to confirm what effect the planned changes will have on users.

## Annex C: Shared resources – UK and abroad

As one of the inputs used to help consider possible options for the future of the PAF, solutions used by other industries within the UK and postal industries abroad, to tackle similar issues, may provide lessons about what works in particular circumstances.

### *Similar situations within UK industry*

Table 1 introduces a selection of relevant examples from industries with similar shared resources, their ownership and management structures and regulatory provisions.

Table 1: Summary of the operation & regulation of shared resources

<b>System / Resource</b>	<b>Ownership &amp; Management</b>	<b>Regulatory Provisions</b>
<b>Airline Reservations</b>	Multiple providers of competing systems.	Unregulated – viewed as commercial software systems.
<b>Met Data</b>	Leading provider is Met Office.	Public near-monopoly. No regulator.
<b>Map Data</b>	Leading provider is Ordnance Survey.	Overseen by Controller of HMSO. Reviewed against "fair trader" agreements with VARs.
<b>Telecom Directory</b>	Owned and managed by BT.	Subject to regulatory scrutiny – some activities handled by Ofcom.
<b>Rail Timetable</b>	Shared between NR and ATOCs.	NR responsible for the timetable itself, though it has no "downstream" role. Industry co-operates re provision of information.
<b>Gas Billing</b>	Transco monopoly to gas retailers.	No users outside gas supply chain; no incentive for discrimination by Transco as it is excluded from retail business.

In markets where a single player has a high degree of power, two broad approaches are favoured in controlling or limiting the activities of the dominant firm:

- Limiting the vertical scope of operations of the dominant firm. For

example neither Network Rail nor Transco (the gas pipelines operator) can own / operate retail companies.

- Through selective intervention by the regulator. For example Ofcom, the telecommunications regulator, is directly responsible for the allocation of numbering blocks.

**Telecoms:** In relation to BT, where the incumbent also controls a shared resource, there is a combination of regulatory actions designed to protect both users of, and competitors for, telecoms services:

- Regulated terms of supply (price for directory data must be cost based);
- Regulatory management of certain activities (see above); and
- Clear separation of trading divisions and enforcement of “Chinese walls”.

**Gas & Rail:** In the gas market Transco, owner of all gas meters, is prevented from competing in the retail gas market and as such is neutral in its treatment of gas retailers. This solution controls the activities of Transco by restricting its operations. Likewise, with rail timetables, National Rail is neutral as it does not provide any train services (all train operators provide timetable information to National Rail which provides the timetable service in partnership with train operators).

**Map & Meteorological data:** The provision of map and meteorological data is comparable to the PAF in terms of the market power of the provider and the nature of the customer supplied (which includes a combination of individuals and small and large companies). The issues raised by resellers of this information are similar to those raised by PAF resellers. There is comparatively little regulation of map data and none of meteorological data.

**Share trading information:** In the financial services market competing stock exchanges pool information with a central body, FTSE, who provides a single consolidated reference for stock trading information. This prevents

duplication of effort and makes understanding movements on the stock markets much simpler for those involved in trading shares. This model has interesting implications for the future update and maintenance of the PAF where, potentially, a number of competing postal operators might contribute to the maintenance of a master address database.

### ***Managing postcodes around the world***

Postal administrations vary in the systems and regulations they adhere to in much the same way as different industries vary within the UK. However because the resource (they are all postcode systems) is substantially similar, there are still some useful comparisons. This section focuses on those countries with similar postcode functionality to the PAF<sup>18</sup>. In all markets it was felt that the postcode system was integral to the postal service. Key points identified include:

- Ownership of the postcode file varies from country to country, but in all cases the incumbent operator manages the file on a day to day basis.
- Ownership *per se* appears to be less important than policy objectives or regulation in determining the level of commercial exploitation of the PAF.
- In the absence of competition, users are “protected” by limiting the activities of the incumbent.

Table 2: Key PAF characteristics

<b>Country</b>	<b>Owner</b>	<b>Management</b>	<b>PAF royalties?</b>	<b>Value Added?</b>	<b>Postal Competition?</b>
UK	Incumbent	Yes	High <sup>19</sup>	Low	Limited
Sweden	Incumbent	Shared	None	Low	Yes
Netherlands	Community	Yes	Low	High	Limited

<sup>18</sup> “PAF” has been used as the universal description of postcode files in all countries assessed.

<sup>19</sup> “High” royalties are where PAF is actively used as a revenue generating product.

Germany	Community	Yes	Low	High	Limited
USA	Incumbent	Yes	Low <sup>20</sup>	None	Upstream
Australia	Incumbent	Yes	Low	Low	No

Of the countries assessed, Germany, the Netherlands and Sweden have varying degrees of postal competition. All three make PAF easily available, either free or cheaply, to competitors on terms roughly equivalent to those enjoyed by the incumbent. In Sweden, the only European postal market fully opened to competition, the PAF is treated as part of the “postal infrastructure<sup>21</sup>”. Competitors, together with user representatives and the regulator, form a council that makes decisions relating to the PAF. Access to the PAF is freely available and competitors have the right to allocate new postcodes in the same way that Posten (the incumbent and owner) can.

As described above, ownership in itself does not appear to be the defining factor in determining the extent to which the postcode address file is exploited; rather the determinants tend to be:

- An overriding policy objective to use the PAF to drive some other (greater) benefit. This appears to be the case in the US and Australia where the low charges for use of the postcode address file are justified by the benefits accruing to the postal system from higher postcode use; or
- Regulatory and oversight arrangements controlling the use of the postcode address file. This appears to be the case in Sweden where, although Sweden Post (Posten) is the owner and manager of the file, the incumbent is accountable to a stakeholder council for its operation, charges, and proposed developments.

Though these markets vary from each other and the UK it is evident that all

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<sup>20</sup> “Low” royalties are where PAF is not viewed as a revenue generating product.

<sup>21</sup> Postal Infrastructure in Sweden includes PAF, redirection information and forwarded mail.

have tried to protect the integrity of the PAF and ensure that it is as widely available as possible at low cost to users. In Australia and the US, where the incumbent postal operators own and control the PAF, the PAF is provided via VARs at a low cost.

In countries with competition for postal services the PAF, and its copyright, is either owned separately from the incumbent (Germany, the Netherlands) or its management and supply are regulated (Sweden). In Sweden the PAF is considered to be one of the four fundamental parts of the postal infrastructure, fair access to which is essential for the development of competition. The other fundamental parts are post office boxes, forwarded mail, and redirection information.

## **Annex D: The PAF Code of Practice**

Condition 20 of Royal Mail's Licence requires the introduction of a code of practice for modifying and updating the PAF. The PAF Code of Practice was introduced in 2002 and revised in March 2004. The Code set out for the first time rules that, among other things, enabled people to ask Royal Mail to make changes to parts of their postal address.

A number of issues raised by stakeholders during the consultation on the Code and its subsequent revision were considered by Postcomm in making its decision. Further information, including the submissions made in response to Postcomm's original consultation and Postcomm's decision can be found on Postcomm's website [www.psc.gov.uk](http://www.psc.gov.uk).