

# **Royal Mail's Compensation Schemes for Delay and Loss and Damage**

A Proposals Document

December 2007

# Summary

## Retail Compensation

- S.1 Postcomm issued a consultation in November 2006 asking for views on a number of key issues in relation to the current compensation arrangements for postal packets that have been lost, damaged or delayed. Postcomm highlighted the inequalities between the schemes in relation to the payments received and evidence required by Royal Mail when assessing claims. Postcomm also considered that the current Royal Mail schemes dealing with loss and damage are difficult for customers to understand.
- S.2 Postcomm has considered the responses to the November 2006 consultation document and now sets out more detailed proposals for the future compensation arrangements for loss, damage and delay in this document. Postcomm has used the time in the period between the closure of the previous consultation and publication of this document to continue its negotiations with Royal Mail on enhancements and amendments to the retail schemes.
- S.3 Postcomm wishes to ensure that more of Royal Mail's retail customers can benefit from compensation and face less difficulty in pursuing their claims. Therefore, the proposals are aimed to simplify and align:
- the processes for making a claim;
  - the evidence required to support a claim; and
  - the compensation payments
- for retail mail that has been lost, damaged or delayed.
- S.4 The key proposals for the retail schemes for delay and for loss and damage are as follows:
- where the item was posted with Royal Mail, there will be compensation (a minimum of a book of 6 x 1<sup>st</sup> class letter stamps) for first time claimants for loss, damage and delay where an item

has no intrinsic value or where a claimant cannot provide proof of posting;

- loss and damage to items with an intrinsic value, with proof of posting with Royal Mail and proof of value, will entitle customers to a postage refund (a minimum of a book of 6 x 1<sup>st</sup> class stamps) plus compensation for actual loss up to a maximum of the market value of the item or 100 x 1<sup>st</sup> class letter stamp at the first weight step<sup>1</sup>, whichever is the lower;
- the £5 and £10 payments for delay and substantial delay will be removed, except for Special Delivery Next Day. The substantial delay category will be removed for non-Special Delivery items;
- compensation for delayed retail mail will become payable one day earlier than at present, i.e. 3 working days after the due date;
- redirected mail<sup>2</sup> will be eligible for compensation for delay; and
- users of the Articles for the Blind<sup>3</sup> service will be able to claim compensation for loss, damage and delay.

### Bulk Compensation

S.5 The current compensation scheme for delay, as determined by Postcomm in October 2003, includes compensation arrangements for senders of mail using bulk mail services. Bulk mail customers currently receive compensation in the form of an annual rebate of a percentage of the money they have paid to Royal Mail, depending on Royal Mail's annual performance against its quality of service targets for bulk mail.

S.6 Postcomm proposes to remove bulk mail from the compensation scheme for delay with effect from 1 April 2009. Postcomm considers that the continuation of a regulated compensation scheme for bulk mail may distort customer behaviour and act as a barrier to switching. It is

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<sup>1</sup> For Special Delivery Next Day and for Standard Parcels with enhanced compensation, up to the market value of the item or the maximum level of compensation purchased, whichever is the lower

<sup>2</sup> This only applies to mail redirected using Royal Mail's redirections service.

<sup>3</sup> Postcomm has allowed Royal Mail, over the 4 years of the 2006-10 Price Control, to recover £20m of costs to cover the provision of the Articles for the Blind service

more appropriate now to start to move towards a market driven outcome, and the possibility of different schemes reflecting the different needs of different types of customers.

- S.7 This document details the proposals and invites comments on the future compensation arrangements for delay and for loss and damage.
- S.8 Following this consultation, Postcomm will consider the responses and information provided to it and then publish a decision, which will be subject to a consultation period of 30 days.
- S.9 Postcomm will expect Royal Mail to review its customer literature to ensure that the new compensation arrangements are communicated to customers in a clear and concise way.

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# 1. Introduction

## Purpose of this document

1.1 This document:

- summarises the comments received in response to Postcomm's consultation<sup>4</sup> on Royal Mail's compensation schemes for delay and loss and damage, which sought views on the existing compensation arrangements and what changes it would be appropriate to make;
- puts forward proposals to remove bulk mail from the compensation scheme for delay with effect from 1 April 2009 and to amend the retail compensation schemes for delay and loss and damage during 2008; and
- invites views on Royal Mail's proposals for future compensation arrangements for retail customers for delay and for loss and damage.

## Background

### Compensation for delay

1.2 Royal Mail's licence<sup>5</sup> requires it to have a "standards of service compensation scheme" for compensating users of postal services for delayed mail. Following extensive consultation, Postcomm published a document that set out Royal Mail's compensation scheme for delay in October 2003<sup>6</sup>.

### Compensation for loss and damage

1.3 The Postal Services Act<sup>7</sup> ("the Act") enables Royal Mail to make schemes "in relation to the services provided....in connection with the provision of a universal postal service or any of those services". Royal

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<sup>4</sup> Royal Mail's Compensation Schemes for Delay and Loss and Damage: A Consultation Document, November 2006.

<sup>5</sup> Licence Condition 4: Part II Compensation Scheme.

<sup>6</sup> A Compensation Scheme for Delay by Royal Mail: A decision document and determination, 7 October 2003.

<sup>7</sup> Section 89 (1)

Mail currently operates five schemes, four of which include provisions relating to compensation for loss and damage<sup>8</sup>. The schemes contain information on, amongst other things, fees for posting a letter, and size and weight limits. For the purpose of this document “the schemes for loss and damage” means those parts of Royal Mail’s schemes that deal with compensation.

- 1.4 Royal Mail considers that schemes relating to compensation for loss and damage which are made under section 89 of the Postal Services Act 2000 may only be made by Royal Mail as the current Universal Service Provider. Royal Mail believes Postcomm has no power under the Licence or other legislation to direct Royal Mail in the making or application of the schemes or any part of them relating to compensation for loss or damage. In response to this consultation Royal Mail has voluntarily proposed to make amendments to the content of the current schemes in respect of compensation for loss and damage.
- 1.5 Postcomm does not accept Royal Mail’s position and considers that Postcomm does have the power, following amendments made to Royal Mail’s licence in May 2006, to direct Royal Mail in the making and application of schemes under section 89 of the Act. However, Royal Mail’s constructive response to the consultation in the form of the package of proposals which it has submitted to Postcomm means that Postcomm may not need to exercise its power on this occasion.

#### Review of Royal Mail’s current compensation arrangements

- 1.6 Postcomm is reviewing Royal Mail’s compensation schemes because:
- it considers that there is an unhelpful and illogical lack of consistency between the schemes dealing with compensation for loss and damage and compensation for delay;

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<sup>8</sup> (1) Royal Mail Group PLC Successor Postal Services Company Inland Letter Post Scheme 2001; (2) Royal Mail Group PLC Successor Postal Services Company Inland Parcel Post Scheme 2001; (3) Royal Mail Group PLC Successor Postal Services Company Overseas Letter Post Scheme 2001; and (4) Royal Mail Group PLC Successor Postal Services Company Overseas Parcel Post Scheme 2001.

- it believes the current compensation arrangements for loss and damage are complicated and difficult for customers to understand;
- it considers it appropriate to consider what type of bulk mail compensation scheme (if any) for delay, and retail compensation schemes for delay and loss and damage, are appropriate for customers in the future; and
- the compensation scheme for delay was due to be reviewed in 2005 (12 months after the bulk and retail elements of the compensation scheme for delay have been in operation); this was delayed because of the Judicial Review brought against Postcomm by Postwatch (see chapter 5 for a more detailed explanation).

1.7 In November 2006, Postcomm issued a consultation document<sup>4</sup> on Royal Mail's compensation schemes for delay and loss and damage which:

- described the principal features of Royal Mail's existing compensation scheme for delay and Royal Mail's own schemes providing compensation for loss and damage;
- outlined concerns expressed by customers and their representatives about Royal Mail's existing compensation arrangements; and
- invited views on the existing compensation arrangements, the issues identified, and Royal Mail's proposals for new compensation arrangements for delay and for loss and damage.

1.8 Postcomm received 16 responses to the consultation, all of which commented on specific issues raised in the document. These are summarised in chapters 2, 3, 5 and 6 of this document. All non-confidential responses can be viewed on Postcomm's website ([www.postcomm.gov.uk](http://www.postcomm.gov.uk)).

## **Postwatch**

- 1.9 The Consumers, Estate Agents and Redress Act was given Royal Assent on 19 July 2007. The Act makes new provisions for consumer representation in energy and postal services. The Act provides for the abolition of energywatch and Postwatch. A new National Consumer Council (NCC) will replace energywatch, Postwatch and the existing NCC in October 2008.
- 1.10 Postcomm expects the proposed changes to the compensation arrangements for retail loss, damage and delay to be implemented during summer 2008. Postcomm expects Royal Mail to continue to work with Postwatch to ensure that the changes are communicated effectively to customers before then.
- 1.11 Postcomm will work with Postwatch and Royal Mail to ensure that, if appropriate, Royal Mail's new compensation arrangements will be amended to take into account the arrangements for the referral of complaints about compensation payments to a redress scheme when such a scheme is introduced.

## **Structure of this document**

- 1.12 This document is structured as follows:
- Chapter 2 summarises the responses to and discusses the key issues raised in the consultation regarding the retail compensation arrangements for delay and for loss and damage;
  - Chapter 3 discusses other issues regarding retail compensation;
  - Chapter 4 sets out the proposals for retail compensation for delay and loss and damage;
  - Chapter 5 summarises the responses to and discusses the key issues raised in the consultation regarding the bulk compensation scheme for delay; this chapter also sets out the proposals for the bulk compensation scheme;
  - Chapter 6 discusses what will happen going forward;

- Appendix 1 is Royal Mail's proposed compensation arrangements for loss and damage and a summary of Royal Mail's proposed changes to the section 89 schemes which will enable it to implement the new compensation arrangements for loss and damage; and
- Appendix 2 is Royal Mail's proposed modified compensation scheme for delay.

### **Process and timetable**

1.13 This document is subject to a two-month consultation period. Postcomm requests responses by no later than 18 February 2008. Contact details are set out below.

1.14 Postcomm will assess the responses received to the proposals in this document, and aims to publish its final decision by 30 April 2008.

### **Contact details**

1.15 Anyone with views on the proposals in this document should send their comments, by 18 February 2008, to:

**Carmen To**  
**Manager, Universal Service and Customer Protection**  
**Postcomm**  
**Hercules House**  
**6 Hercules Road**  
**London**  
**SE1 7DB**

**Fax: 020 7593 2142**

**Email: [Carmen.To@psc.gov.uk](mailto:Carmen.To@psc.gov.uk)**

### **Confidentiality of responses**

1.16 Postcomm wishes to make public the responses it receives to this proposals document. If you do not want all or part of your response to this document to be read by anyone outside of Postcomm, please ensure that your response clearly indicates which parts are confidential. 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'. However, Postcomm is a 'public authority' for the purposes of the Freedom of Information Act 2000, and must act at all times in accordance with applicable law.

## **2. Compensation schemes for retail delay and loss and damage – Key Issues**

- 2.1 This chapter summarises the responses to, and discusses the key issues raised in, the consultation regarding the retail compensation schemes for delay and for loss and damage.
- 2.2 At the end of each discussion point, Postcomm has included a proposal for the future compensation schemes. All proposals in this chapter are listed in Table 2.0. Detailed proposals for the retail compensation arrangements for delay and for loss and damage can be found in chapter 4.

### **Inequality between compensation payments for delay and for loss and damage**

- 2.3 In the consultation, Postcomm highlighted that the current compensation payments for delay are significantly more generous than the compensation currently paid by Royal Mail for loss and damage for similar mail. Postcomm asked for comments on how this inequality should be addressed.

#### Responses

- 2.4 Royal Mail considers that the current payments for delay and substantial delay are disproportionately high in relation to the price paid for the service and the inconvenience caused to customers. It considers that loss and damage are of more serious concern to customers as it currently receives over 20 times as many claims for loss and damage as it does for delay in relation to ordinary (non-Special Delivery) mail items.
- 2.5 Postwatch considers that Royal Mail should introduce a standardised approach to first time complaints for loss, damage or delay which are not supported by proof of postage.
- 2.6 The Mail Users' Association (MUA) suggests that the inequality could be dealt with by reducing the current £5 payment for delay and £10

payment for substantial delay, whilst at the same time raising the compensation payable for loss and damage.

### Discussion

2.7 By proposing to remove the inequalities between the schemes, Postcomm aims to ensure that more customers should be able to benefit from compensation and face less difficulty in pursuing their claim. In addition, the proposals should also ensure that the compensation available should more accurately reflect the inconvenience caused to customers by loss, damage or delay.

2.8 Under the proposed new compensation arrangements:

- there will be compensation of a book of 6 x 1<sup>st</sup> class letter stamps for claimants for delay, and for loss and damage where an item has no intrinsic value or where a claimant cannot provide proof of posting (additional compensation will be payable for loss in those cases where the postage cost of the item exceeds the value of 6 x 1<sup>st</sup> class letter stamps);
- loss and damage to items with an intrinsic value, with proof of posting and value, will entitle customers to a postage refund plus compensation for the actual loss to the customer up to 100 x 1<sup>st</sup> class letter stamp at the first weight step;
- the £5 and £10 payments for delay and substantial delay will be removed, except for Special Delivery . The substantial delay category will be removed for non-Special Delivery items.

2.9 Currently many customers who report lost mail (with no proof of posting) receive no compensation although Royal Mail does sometimes provide discretionary compensation in the form of stamps. Postcomm therefore considers Royal Mail's proposals to be reasonable as there will be comparable compensation payments for loss and damage as well as delay. Royal Mail estimates that under these proposals, around 30% more loss and damage complainants will receive some form of compensation.

2.10 Postcomm considers it is reasonable that the increase in payments for loss and damage should be balanced by the removal of the £5 and £10 payments for delay and the reduction from paying 12 x 1<sup>st</sup> class stamps to 6 x 1<sup>st</sup> class letter stamps. Based on the number of complaints and claims for compensation received in 2005-06, Royal Mail has calculated that even with the removal of the £5 and £10 payments for delay and substantial delay and reducing the number of stamps paid from 12 to 6, the financial impact of implementing these changes would have resulted in Royal Mail paying out around £226,000 more in compensation in 2005-06 than under the existing arrangements.

### **Evidence to support a claim for compensation**

2.11 Royal Mail currently requires proof of posting from a customer in order to claim compensation under the schemes for loss and damage. Royal Mail says that it requires this level of evidence for compensation claims in order to ensure that the claim submitted is for Royal Mail and not another operator and also to prevent fraudulent or erroneous claims.

2.12 Whilst claimants for damaged or delayed mail can provide evidence of postage in the form of the damaged or delayed postal packet, claimants for lost mail will not have evidence unless proof of posting has been obtained from a Post Office counter.

### Responses

2.13 Royal Mail says it is reasonable to expect it to take steps to ensure that customers are aware of the need to obtain a recognised form of proof of posting if posting an item of value. Royal Mail believes it should be able to require evidence of posting, value, adequate packaging and damage before making monetary payments for loss and damage claims. If the claimant is unwilling or unable to provide such evidence, Royal Mail proposes to issue compensation in the form of stamps or postage credit to an online postage or Smartstamp account.

2.14 Postwatch says that Royal Mail must be innovative in creating new forms of acceptable proof of postage for retail customers. It also wants Royal Mail to communicate better to customers the acceptable forms of

proof of postage, where they can be obtained and why they are required for consideration of compensation.

- 2.15 The MUA says that the evidence requirements to make a claim for compensation should be the same for loss, damage and delay.

### Discussion

- 2.16 In the proposed new arrangements, as explained in paragraph 2.8 and explained in more detail in chapter 4, Royal Mail has standardised the evidence requirements for loss, damage and delay. All first time claimants for normal 1<sup>st</sup> and 2<sup>nd</sup> class items (including Recorded Signed For items sent using these services) with no intrinsic value and/or without proof of posting will be entitled to a minimum book of 6 x 1<sup>st</sup> class stamps.

- 2.17 For claims for financial compensation, Royal Mail has confirmed that proof of posting can be any of the following:

- the item with envelope or packaging;
- Recorded (Signed for) proof of posting receipts;
- Special Delivery Next Day (not posted on account) proof of posting receipts;
- Certificate of posting P326 (available free of charge on request at Post Offices for other items);
- Horizon<sup>9</sup> certificate of posting; or
- Smartstamp or on-line certificate of posting validated at a Post Office<sup>10</sup>.

- 2.18 Royal Mail says that the proof of posting needs to show:

- the date of posting;

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<sup>9</sup> "Horizon" is the Post Office automation system that issues receipts for transactions. If the customer requests a Certificate of Posting the receipt can be annotated to record the address details of the item.

<sup>10</sup> Individuals users can print postage from Royal Mail's website. Smartstamp allows businesses to set up an account to print postage online for small or large amounts of mail.

- the product used;
- the address the item was sent to; and
- a validation (date stamp or Horizon confirmation) by the accepting Post Office.

2.19 For loss or damage claims for monetary compensation, Royal Mail would also want proof of value of the item that has been lost or damaged. Royal Mail will require evidence of the cost to the claimant to acquire, purchase or manufacture the item in question such as original receipts, catalogue price, Paypal record, invoices, manufacturing costs, auctioneer's valuation and repair costs in the case of damage claims.

2.20 For claims from businesses, Royal Mail will use its discretion to consider other evidence of posting such as clear evidence that a franking machine has been used or business collection documentation.

2.21 Postcomm does not consider Royal Mail's evidence requirements to support a claim for compensation to be unreasonable. Royal Mail requires the evidence to establish that the item was posted with it.

2.22 Postcomm does not propose any changes to Royal Mail's evidence requirements to support a claim for compensation. Postcomm will expect Royal Mail to work with Postwatch (or if Postwatch no longer exists, with the National Consumer Council) to ensure that the evidence requirements for compensation claims, and the reasons for requiring such evidence, is communicated to customers in an appropriate and effective way.

2.23 Postcomm recognises that the accepted forms of proof of posting will change over time as technology advances. Postcomm will expect Royal Mail to ensure that its customer communications are as up to date as possible so that customers are clear about what accepted forms of proof of posting can be used to support compensation claims.

## **Royal Mail's use of stamps as compensation**

2.24 Royal Mail considers that stamps are a cost effective way of providing small amounts of compensation. However, for customers to receive the benefit of compensation offered in the form of stamps, they must use Royal Mail's service in the future. Postcomm invited views on this issue.

### Responses

2.25 Royal Mail says that compensation is paid in the form of stamps where the amount of compensation to be paid is very small; or where the claimant is unable or unwilling to produce the documentation required for a cash payment. It considers the latter to be equivalent to the issuing of a credit note to a customer claiming a refund without a receipt or other satisfactory proof of purchase.

2.26 Postwatch and the MUA are keen to see compensation in some other monetary form which may be used to purchase other products and services provided by Royal Mail or other operators.

2.27 The Royal National Institute of the Blind (RNIB) questions the extent to which stamps issued as compensation would be useful to customers who predominantly, if not exclusively, use the free Articles for the Blind services.

### Discussion

2.28 Postcomm does not consider it unreasonable for Royal Mail to pay relatively small amounts of compensation in the form of stamps. The provision of stamps as compensation is probably less likely to generate fraudulent claims than money and has lower handling costs than cheques. As such, use of cheques as compensation for small amounts of money is likely to be an unnecessarily costly and inefficient way for Royal Mail to compensate customers. Postcomm also considers that many customers may find that having to cash a cheque for a small sum of money is an inconvenient way to receive compensation.

2.29 Postcomm does not believe it is reasonable to require Royal Mail to provide compensation that may be used to purchase products from other operators in cases where customers are unable to provide proof of purchase. This is in line with standard trading practice across the retail sector. Royal Mail has confirmed that stamps can be used by customers as full or part payment on other Royal Mail postal products available through Post Offices. Postcomm expects Royal Mail to make this clear when issuing stamps as compensation to postal users.

### **Refunding the cost of posting**

2.30 Royal Mail's current schemes do not, in most cases, refund the cost of posting. Where postage is refunded in certain limited circumstances, the maximum compensation paid including postage cost will not exceed 100 x 1<sup>st</sup> class letter stamp (currently £34). Postcomm asked for views on this issue.

### Responses

2.31 Royal Mail says that since 2005, it has refunded postage for lost (non-Special Delivery) items as standard along with any compensation payment related to the cost of the items to the claimant provided that the total payment does not exceed the maximum amount payable under the schemes for loss and damage (100 x 1<sup>st</sup> class letter stamps). Royal Mail is proposing to refund postage for all loss and damage claims even if the total payment exceeds 100 x 1<sup>st</sup> class letter stamps.

2.32 Both Postwatch and LOVEFILM International consider that where a customer pays for a service and it is not satisfactorily provided, then the customer should be refunded the amount originally paid for postage in addition to any compensation to which they are entitled.

### Discussion

2.33 Postcomm considers that customers should be refunded their postage if the service they have paid for has been unsatisfactory. Therefore, Postcomm supports Royal Mail's proposal to refund postage for all loss and damage claims. Postcomm also supports Royal Mail's proposal to

refund postage even if the total payment exceeds the maximum in the section 89 scheme. Postcomm will expect Royal Mail to amend the section 89 schemes to reflect the refund of postage in addition to the maximum payment of 100 x 1<sup>st</sup> class letter stamps.

### **Royal Mail's interpretation of the maximum amount of compensation available**

2.34 The Postal Services Act 2000 (“the Act”) limits the maximum amount recoverable in any court proceedings against Royal Mail for loss and damage to an inland packet<sup>11</sup> to:

- the market value of the packet at the time the loss or damage arises; or
- the maximum amount of compensation payable (set by Royal Mail) under the schemes dealing with compensation for loss and damage.

2.35 The Act does not specify whether the maximum amount recoverable is the higher or lower of those amounts. In its current and proposed schemes dealing with compensation for loss and damage, Royal Mail has chosen to interpret the maximum amount recoverable as the lower of the market value and Royal Mail's scheme imposed maximum of 100 x 1<sup>st</sup> class letter stamps (currently £34). Postcomm asked for views on this interpretation by Royal Mail.

### Responses

2.36 Royal Mail considers the wording of the Act to be clear – it considers the maximum amount recoverable cannot exceed the lesser of the two levels described in paragraph 2.34. It says the intention of the Act is to limit the liability of the universal service provider. Therefore, it would not make sense for the interpretation to be that a sender or recipient could claim up to the market value of any item sent in the ordinary mail as this could amount to unlimited liability.

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<sup>11</sup> brought pursuant to section 91(1) of the Act.

2.37 Postwatch believes that Royal Mail should be able to limit its liability for the level of compensation payable.

#### Discussion

2.38 Postcomm agrees that the purpose of the relevant provisions of the Act is to limit the liability of the universal service provider in relation to compensation for any items sent in the ordinary mail that are lost or damaged.

2.39 Postcomm accepts a point made in Royal Mail's response that if there is any doubt about the interpretation of the provisions in the Act then it would be a matter for the courts to rule upon the issue.

#### **Maximum compensation available through Royal Mail's schemes dealing with compensation for loss and damage**

2.40 In relation to claims for loss and damage, the Act provides that the maximum amount recoverable in any court proceedings<sup>12</sup> is the market value of the item or the maximum amount payable under a section 89 scheme. The current maximum payable by Royal Mail under its schemes is 100 x the value of a first class letter stamp. Postcomm asked for views on this maximum amount which is set by Royal Mail.

#### Responses

2.41 Royal Mail says that it is willing to retain a maximum level of compensation payable up to a value of 100 x first class letter stamps under its proposals. It is also willing to refund postage on top of this amount whereas before, the total compensation payable plus postage refund could not exceed 100 x the value of a first class letter stamp.

2.42 LOVEFiLM International considers £32 (now £34 i.e. first class letter stamp 34p x 100) to be a reasonable amount of compensation and said that it would expect posting anything over £50 in value to be insured or sent by a secure posting method.

2.43 The MUA considers that it would be appropriate for the current maximum compensation payable under Royal Mail's schemes (£34) to

be reviewed. It suggests that an appropriate yardstick would be for Postcomm to establish what year this value came into effect, and then multiply this by the increased cost of living over the resulting period, to arrive at an appropriate figure for 2007.

### Discussion

- 2.44 Postcomm does not consider the maximum amount payable under the schemes to be unreasonable. A sender can post a first class item for only 34p but can claim compensation for up to 100 times this amount if he/she is able to satisfy Royal Mail's evidence requirements. Since the value of compensation paid increases to reflect any increase in the cost of a stamp there does not seem to be a need to adopt a cost of living uprating approach.
- 2.45 Postcomm agrees with the comments of LOVEFiLM International and would also expect anyone sending items with an intrinsic value in the post to do so using an insured service, i.e. Special Delivery<sup>13</sup>. Postcomm expects Royal Mail to make clear in its literature that the maximum compensation payable for items sent using normal 1<sup>st</sup> and 2<sup>nd</sup> class services is 100 x the value of a first class letter stamp, that evidence requirements will apply, and that there are other products and services which offer a more secure service and will pay out more compensation for items sent that are worth more than this.

### **How market value should be calculated**

- 2.46 Royal Mail's scheme<sup>14</sup> currently has the definition of market value as "when used in relation to a letter, the market value of the letter, not including the market value of any message or information which it bears". Royal Mail has the discretion in determining such a definition. For example, section 92 of the Act states that the market value of a packet must not include:

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<sup>12</sup> Brought pursuant to section 91(1) of the Act.

<sup>13</sup> Special Delivery pays enhanced compensation while Recorded (Signed For) is treated as normal mail for the purposes of compensation for loss, damage and delay.

<sup>14</sup> Schedule 2 of the Royal Mail Group PLC Successor Postal Services Company Inland Letter Post Scheme 2001

- the market value of any message or information which it bears; or
- any item that is excluded by a section 89 scheme.

2.47 Royal Mail assesses compensation for loss and damage on a case by case basis. Royal Mail says that it pays compensation based on actual loss, which could be the cost to purchase, acquire or produce the original item. There were concerns that this policy could result in a lack of transparency and consistency for customers about the amount of compensation they are entitled to and what evidence may be required to justify their claim. Postcomm asked for views on how market value should be calculated.

### Responses

2.48 Royal Mail believes that its approach in assessing the value of claims is sound and legally robust. The underlying principle in its approach is to compensate the claimant for his or her loss i.e. to put the claimant back into the position that he or she would have been in had the item not been lost or damaged. Royal Mail says that disputes with claimants over market value are rare.

2.49 Postwatch would like a standardised definition of market value to be developed and clearly communicated to customers. LOVEFiLM said it would expect market value to be the cost at which the customer can currently replace the item in the market.

2.50 The MUA considers the key issue in establishing market value in terms of any compensation due, is whether the claimant is a sender or recipient of mail. It says that a two-tier compensation claim procedure should be established to cover the sender and recipient.

### Discussion

2.51 In considering the market value of an item, Postcomm considers that a single method of calculation would almost certainly be incapable of satisfactorily dealing with the wide range of claims submitted to Royal Mail. However, customers currently have no idea how the value of an item is likely to be assessed by Royal Mail and therefore Postcomm

proposes that Royal Mail should make transparent and publish a summary of the criteria it uses to calculate actual loss, so that customers (whether they are the sender or recipient) have a reasonable idea of how their claim may be assessed.

- 2.52 The criteria should be included in any Royal Mail customer literature on compensation arrangements and should also be easily located at an appropriate place on Royal Mail's website. Postcomm would expect Royal Mail to work with Postwatch (or if Postwatch no longer exists, with the National Consumer Council) in considering how the criteria can be communicated to customers in an appropriate and easy to understand way.

### **Should compensation for delay be payable sooner?**

- 2.53 For the purposes of Royal Mail's current compensation scheme for retail delay, a first or second class item is considered to be delayed if it is delivered 4 or more working days after its due date of delivery, and substantially delayed if it is delivered 10 or more working days after the due date of delivery. Postcomm asked for views on whether compensation for delay should be made payable sooner.

### Responses

- 2.54 Postwatch believes that the time periods for delay are too long and wants compensation for delay to be payable where an item arrives 2 or more working days after its due date of delivery in order to encourage Royal Mail to meet the targets set for delivery. Postwatch said that additional compensation should be made available where an item arrives 5 or more working days and 10 or more working days after the due date. The MUA was of the same view - that compensation for delay and substantial delay should be brought forward to 2 and 5 or more working days after the due date.
- 2.55 Royal Mail says that, as part of its package of proposals for loss, damage and delay compensation, it would be prepared to bring forward the definition of delay to 3 or more working days after the due date of an item. However, Royal Mail is concerned about the potential

financial impact of making compensation for delay payable sooner. It estimates that bringing forward the definition by a day would more than double the number of items eligible for delay compensation. It is also concerned about the financial impact in the event of industrial action, particularly as it can take two days to clear the backlog of a one day strike.

### Discussion

- 2.56 Postcomm proposes that compensation for delay should be payable a day sooner i.e. where an item arrives 3 or more working days after its due date. Postcomm considers that this will provide better protection for captive customers who cannot switch to use the services of other postal operators in the way that bulk mailers can. By making compensation for delay available a day sooner, Royal Mail should be incentivised to maintain its quality of service performance at or above target levels.
- 2.57 Postcomm accepts Royal Mail's proposal to remove the substantial delay category for mail other than Special Delivery (see paragraphs 2.8 – 2.10). Given the fact that substantial delay only accounted for 4% of all delay complaints during 2006–07, Postcomm considers that this category is no longer necessary. Postcomm notes Royal Mail's concern with its exposure in the event of industrial action and this is discussed in more detail in paragraph 6.32 – 6.33.

### **Delay compensation for retail customers using the redirections service**

- 2.58 The retail section of the current compensation scheme for delay excludes Royal Mail from the obligation to pay compensation for delayed redirected mail. However, Postcomm considers that this may be unfair on customers using the redirections service and that the terms of the compensation scheme could be amended to remove this exemption. Postcomm asked for views on this.

## Responses

- 2.59 As customers pay for Royal Mail's redirection service, both Postwatch and the MUA consider that customers should be entitled to claim compensation where there is a service failure. Both recognised that the period defining delay for mail redirected using this service should be extended to take into account the additional logistics of the redirection process.
- 2.60 LOVEFiLM International commented that customers do not know when to expect redirected mail to arrive as Royal Mail does not provide guidelines for the redirection service. LOVEFiLM International said that guidelines should be set, then performance monitored and compensation should be payable against pre-defined standards.
- 2.61 Royal Mail clarified that items that are redirected should be treated as first class items from the point at which they are redirected (the delivery office of the original address) regardless of the original tariff used for an item. It accepted that there are no formal service standards in place for redirected items but commented that the items are subject to two journeys and both need to be taken into account when considering when a redirected item is actually due. Royal Mail has agreed, as part of its package of proposals for loss, damage and delay compensation, to review the exclusion of redirected mail from delay compensation subject to agreement over an appropriate definition of delay for such items. However, Royal Mail will not pay delay compensation for:
- international redirections;
  - redirected items not redirected using Royal Mail's official paid for redirections service; or
  - when the redirection service paid for by the customer has failed and Royal Mail has already paid goodwill compensation to the customer for this failure.

## Discussion

- 2.62 Royal Mail's own figures show that 36% of redirections are within the same delivery office area and therefore are not subject to two journeys through the pipeline. However, Postcomm considers that it would not be practical for Royal Mail to have different compensation arrangements depending on where an item of mail has been redirected to. Therefore, Postcomm proposes that any compensation for delay to redirected items should reflect the fact that a mail item is subject to two journeys. Postcomm supports the views of Postwatch and the MUA that customers should be entitled to compensation if a service they have paid for has failed.
- 2.63 Postcomm proposes that retail items redirected under Royal Mail's redirection service should be eligible for compensation for delay. Postcomm proposes that the definition of delay for such items should be six days after the original due date (i.e. double that of delay for ordinary 1<sup>st</sup> and 2<sup>nd</sup> class stamped and metered mail) to take into account the two journeys of a redirected mail item. Postcomm accepts the three exceptions in paragraph 2.61.

### **Delay compensation for users of European international outbound mail**

- 2.64 Royal Mail does not currently pay compensation for delay to European international outbound mail even though there is now a standard of service target for this service. Postcomm suggested that in making compensation payable for European international outbound mail, Royal Mail would be further incentivised to put pressure on other operators to improve their performance.

## Responses

- 2.65 The MUA considers that, in respect of the extended timetable for Europe moving to a competitive market, requiring Royal Mail to pay compensation for delay to European international outbound mail and to apply pressure on other operators to improve performance now would place undue pressure on Royal Mail at a time when its main focus should be on the domestic market.

2.66 Royal Mail considers that there would be too many difficulties in establishing effective compensation arrangements for this service. It cited the following difficulties:

- there is currently no mechanism whereby more effective pressure could be applied to other postal administrators who are failing to perform;
- other countries have different working days and public holidays so each claim would need to be assessed carefully;
- it would be difficult to prevent both the sender and recipient from claiming; and
- Royal Mail would not be able to verify if delay had actually occurred once an item had left its network.

2.67 Royal Mail said that given the difficulties faced, it believes that international redirections and international Articles for the Blind should continue to be excluded from compensation for delay.

### Discussion

2.68 Postcomm agrees with the responses provided. Therefore, Postcomm does not propose any changes to compensation provisions in relation to international outbound mail. International redirections and international Articles for the Blind will not be included in the compensation scheme for delay.

### **Compensation for users of the Articles for the Blind service**

2.69 The Articles for the Blind service is provided free of charge to blind or partially sighted people. It is a first class service provided in connection with the universal service. Postcomm is allowing Royal Mail to recover £20m of costs to cover the provision of the Articles for the Blind service, over the 4 years of its 2006-10 Price Control,.

2.70 Royal Mail does not currently pay any compensation to users of the Articles for the Blind service. Postcomm asked for views on whether

they should be entitled to compensation if items become lost, damaged or delayed.

### Responses

- 2.71 Postwatch considers that users of the Articles for the Blind service should be able to claim compensation under exactly the same terms as 'normal' postal items because Royal Mail has the same responsibility to deliver Articles for the Blind items in a timely fashion, to the correct address and undamaged. Postwatch considers that the current packaging guidelines for these items as stipulated by Royal Mail are unnecessary.
- 2.72 The Royal National Institute of the Blind (RNIB) says a majority of the telephone calls it receives are about delays and loss of items being sent via Articles for the Blind. As some of the items that are sent using the freepost scheme have a high cost, it considers that Articles for the Blind should be included in the compensation schemes. It considers that the conditions of posting imposed by Royal Mail render the items more susceptible to loss, damage or delay.
- 2.73 Royal Mail says that in order for it to ensure that the service is being used correctly, items posted under the service are subject to inspection and therefore must be left open, be easy to open and re-seal or the contents should be visible through the packaging. Royal Mail is working with the RNIB to develop a solution to allow Royal Mail to verify the date of posting so that items sent using the Articles for the Blind service can be made eligible for compensation for delay.

### Discussion

- 2.74 As Royal Mail is allowed to recover the costs of providing the Articles for the Blind service, Postcomm agrees with Postwatch's comment that users of this service should be able to expect items to be delivered correctly, undamaged and in a timely fashion and to receive compensation if service is unsatisfactory.

2.75 Royal Mail recognises that mail items posted unsealed are, by their nature, more likely to be damaged through transit in the post than fully sealed items. It also recognises that users of the Articles for the Blind service will often post items that have high intrinsic value or are of significant importance to the recipient of the service. Therefore, Royal Mail has proposed to include these items in the compensation schemes for delay and for loss and damage. Postcomm supports this proposal.

2.76 Both Royal Mail and RNIB want users of Articles for the Blind to be treated the same as other postal users. Royal Mail has confirmed that it will ask to see proof of posting when a user of Articles for the Blind makes a claim for lost or damage to an item with an intrinsic value. For delay, a date of posting has to be stated on the cover of a mail item should customers wish to claim compensation.

### Summary of proposals

2.77 The table below lists all the proposals in this chapter. Postcomm would welcome any comments on any of these proposals.

Table 2.0

Paragraph reference	Key issue discussed	Proposal
2.3 – 2.10	Inequality between payments for delay and for loss and damage	<ul style="list-style-type: none"> <li>• compensation for first time complainants of loss and damage as well as delay, even without proof of posting;</li> <li>• Removal of £5 and £10 delay and substantial delay payments (except for Special Delivery Next Day);</li> <li>• Removal of substantial delay category (except for Special Delivery Next Day).</li> </ul>
2.11- 2.23	Evidence to support a claim for compensation	<ul style="list-style-type: none"> <li>• Royal Mail will continue to require proof of posting for loss and damage claims for monetary compensation;</li> <li>• Royal Mail will continue to require evidence of value for loss and damage claims for monetary compensation.</li> </ul>

2.24 - 2.29	Royal Mail's use of stamps as compensation	<ul style="list-style-type: none"> <li>• Royal Mail to continue to pay compensation for small amounts in the form of stamps;</li> <li>• Royal Mail to pay compensation in the form of stamps for claimants of delay, and for loss of, or damage to items of no intrinsic value and/or where evidence of posting cannot be provided by the claimant, where the claim is otherwise valid.</li> </ul>
2.30 - 2.33	Refunding the cost of posting	<ul style="list-style-type: none"> <li>• Postage will be refunded for valid loss and damage claims;</li> <li>• Postage will be refunded even if total payment exceeds 100 x 1<sup>st</sup> class letter stamp (£34).</li> </ul>
2.34 - 2.39	Royal Mail's interpretation of the maximum amount of compensation available	Postcomm will not challenge Royal Mail's interpretation of the maximum amount of compensation available
2.40 - 2.45	Maximum compensation available through Royal Mail's schemes dealing with compensation for loss and damage	Postcomm will not challenge the maximum compensation imposed by Royal Mail's schemes dealing with compensation for loss and damage (i.e. 100 x first class letter stamp)
2.46 - 2.52	How "actual loss" should be calculated	Royal Mail to make transparent and publish a summary of the criteria it uses to assess the actual loss caused by loss of or damage to an item
2.53 - 2.57	Should compensation for delay be payable sooner?	Compensation for delay is payable where an item is delivered 3 or more working days after its due date.
2.58 - 2.63	Delay compensation for retail customers using Royal Mail's official redirections service	<ul style="list-style-type: none"> <li>• Retail items redirected using Royal Mail's redirections service will be eligible for delay compensation.</li> <li>• The definition for delay to a redirected item will be 6 or more days after the due date.</li> <li>• International redirections and items redirected not using Royal Mail's redirection service will not be eligible for delay compensation.</li> <li>• Royal Mail will not pay out both delay compensation and goodwill compensation for a redirection failure in respect of the same incident.</li> </ul>

2.64 – 2.68	Delay compensation for users of European international outbound mail	European international outbound mail to continue to be exempt from compensation for delay. International redirections and international Articles for the Blind will also continue to be exempt.
2.69 – 2.76	Compensation for users of the Articles for the Blind service	Articles for the Blind will be eligible for compensation for delay, loss and damage

### **3. Retail compensation for delay, loss and damage - Other Issues**

3.1 This chapter deals with other issues in relation to retail compensation for delay, loss and damage which Postcomm seeks comments upon. These issues were either not consulted on or were not mentioned in responses to the November 2006 consultation.

#### **Compensation for mail that is purposely delayed**

3.2 Currently Royal Mail does not automatically provide compensation to customers who are victims of mail dumping or whose mail has been deliberately delayed by Royal Mail staff. Although Postcomm did not consult on this issue, Postwatch raised this in its response.

3.3 Postwatch considers that Royal Mail should enclose a book of stamps with its explanatory letter of apology to customers when mail is deliberately delayed by Royal Mail staff. However, Royal Mail has said that practical and security issues prevent it from sending a book of stamps with the apology letter that is issued from the customer's local delivery office. In particular, Royal Mail would not want all of its 1400 delivery offices to have to maintain stocks of stamps on their premises.

3.4 Postcomm proposes that Royal Mail's apology letter to customers affected should include details on how they can claim compensation if they feel that the delay to the item is something that they wish to complain about.

#### **Compensation during the Christmas period**

3.5 The current retail compensation scheme for delay allows the definition for delay to be extended by one day over the Christmas period<sup>15</sup>. This is intended to reflect the higher volume of mail posted during Christmas, as well as the fact that the quality of service targets do not apply during this period.

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<sup>15</sup> Means the period commencing on the first Monday in December in any year and ending at the start of the working day after the immediately following New Year public holiday or in Scotland at the start of the working day after the immediately following Scottish New Year public holiday.

- 3.6 Postcomm is of the view that Royal Mail must still use all reasonable endeavours to perform as well as it can over the Christmas period. However, Postcomm accepts that the higher volume of mail over Christmas will mean that Royal Mail is unlikely to achieve the same standards when compared to performance in the rest of the year.
- 3.7 Postcomm proposes that for the new retail compensation arrangements:
- the definition of delay will continue to extend by one day over the Christmas period (i.e. an item posted in this period will be considered to be delayed if it arrives 4 or more working days after the due date), and
  - the definition of delay for a redirected item will extend by two days over the Christmas period (i.e. an item posted in this period will be considered to be delayed if it arrives 8 or more working days after the original due date) to take into account the two journeys.

#### **Compensation for mail items sent to addresses excepted from a daily delivery**

- 3.8 Customers living at addresses excepted from a daily delivery may not receive daily deliveries from Royal Mail. Therefore, the current retail compensation scheme for delay allows Royal Mail to apply the scheme on a case by case basis for claims of delay to mail addressed to excepted addresses. Postcomm proposes that this provision should remain.
- 3.9 Compensation for loss will not be considered for an item that Royal Mail has not delivered or attempted to deliver until:
- 15 working days after the due date for items other than Special Delivery, or
  - 10 working days after the due date for Special Delivery Next Day (not posted on account).
- 3.10 As some addresses excepted from Royal Mail's daily delivery obligation may only receive as few as one delivery a week, Postcomm proposes that Royal Mail should also be allowed to apply the compensation arrangements for loss on a case by case basis.

### **Compensation for Recorded (Signed For) items**

- 3.11 Postcomm's November 2006 consultation document did not raise any issues relating to compensation for Recorded (Signed For) items. Royal Mail wanted to clarify for the avoidance of any doubt that the Recorded (Signed For) service is an add-on service to ordinary first and second class mail. It is not a secure service (as it travels through the pipeline with ordinary first and second class items) so customers should not send valuable items or cash using it.
- 3.12 Royal Mail considers that Recorded (Signed For) compensation arrangements for loss, damage and delay should be the same as those for first and second class stamped and metered mail. Postcomm supports these arrangements. Separate from these compensation issues, Royal Mail refunds the charge for the Recorded (Signed For) service where it fails to obtain the signature of the recipient, and this consultation does not include consideration of this policy.

### **Compensation for Special Delivery Next Day (not posted on account)**

- 3.13 The current compensation scheme for delay includes the compensation arrangements for the Special Delivery Next Day product. The scheme applies to Special Delivery Next Day items sold over post office counters (and not sold on account but collected via a business collection) and does not include Special Delivery Next Day bought by customers with Royal Mail business accounts using their account.
- 3.14 Special Delivery Next Day provides proof of posting as part of the service. The current compensation arrangements are set out in table 3.0:

Table 3.0

Special Delivery Next Day (not posted on account)		Loss (10 working days after due date)	Damage	Delay (after due time) <sup>16</sup>	Delay (24 working hours after due time)	Substantial Delay (7 working days after due time)
With proof of posting	No intrinsic value	Fee Refunded	Fee Refunded	Fee Refunded	£5	£10
With proof of posting	Intrinsic value	Fee Refunded plus Compensation on basis of customer's actual loss <sup>17</sup> subject to the the maximum payable being the lower of the market value of the item and the amount of compensation cover paid for at the time of posting <sup>18</sup> .	Fee Refunded plus Compensation on basis of customer's actual loss <sup>19</sup> subject to the maximum payable being the lower of the market value of the item and the amount of compensation cover paid for at the time of posting.	Fee Refunded	£5	£10

*Special Delivery Next Day (not posted on account) compensation for delay*

3.15 Postcomm's October 2003 decision document on the compensation scheme for delay set out the policy intention that compensation for delay to a Special Delivery item will be due a full day i.e. 24 hours, after Royal Mail's failure to deliver by the contracted time. However, this was not made clear in the Determination which only shows that compensation for delay for Special Delivery is payable if the item has not arrived on the day it is due.

<sup>16</sup> If the Special Delivery guarantee is in operation

<sup>17</sup> The cost to purchase, acquire or produce the original item.

<sup>18</sup> Compensation cover paid for ranges from £500 up to £2,500. Cover for consequential loss can also be purchased. See Royal Mail's website:

<http://www.royalmail.com/portal/rm/content1?catId=400026&mediaId=22700549>

<sup>19</sup> The cost incurred to purchase, acquire, or manufacture the item if damaged beyond repair subject to age, condition and depreciation, or the costs of repair.

- 3.16 Royal Mail has confirmed that it has been paying compensation for Special Delivery Next Day (not posted on account) in accordance with the original policy intention i.e. if not delivered within 24 hours of the due time the next working day after it was originally due the customer receives a compensation payment of £5, subject to evidence requirements.

*Other*

- 3.17 Postcomm issued a consultation in September 2006 seeking views on Royal Mail's proposal to change the terms of the Special Delivery (Next Day) product which will have implications for its compensation arrangements in relation to higher value items. Royal Mail is now reviewing its original proposals as a result of concerns raised by respondents and has submitted a revised application for consideration by Postwatch and Postcomm.

*Proposals for compensation for Special Delivery Next Day*

- 3.18 Royal Mail has proposed that the delay scheme should be clarified to state that compensation for delay for Special Delivery Next Day (not posted on account) items is payable if the item does not arrive within 24 hours of the due time on the next working day. Postcomm agrees to this proposal and recognises that this change is only to reflect the original policy intention and that Royal Mail has been paying compensation in accordance with this interpretation.
- 3.19 Postcomm did not receive any comments in relation to the levels of compensation payments for the current Special Delivery Next Day (not posted on account) service. Therefore, Postcomm proposes that they remain the same for now. Postcomm will need to review the compensation arrangements if any changes are made to the Special Delivery Next Day (not posted on account) product in the future.

**Compensation for users of metered mail and Smartstamp**

- 3.20 A number of responses from small and medium sized businesses raised issues regarding their difficulties in claiming compensation for individual items – they send high volumes of mail but not enough to be under contract as a bulk mail customer. They also questioned the appropriateness of receiving

compensation in the form of stamps when they send metered items or mail using Smartstamp.

- 3.21 Meter users and Smartstamp users both come under the retail compensation scheme for delay. Royal Mail says that metered mail falls under the retail scheme because the machine technology does not identify a customer's spend by product, which is necessary to be included in the bulk scheme.
- 3.22 Royal Mail no longer has responsibility for assigning credit to franking machine users (for metered mail). Modern franking machines are credited remotely by third party meter manufacturers who enter contractual arrangements with their users. Therefore, Royal Mail can only issue stamps (rather than credit on franking machines) as compensation to metered users.
- 3.23 Royal Mail has confirmed that it can provide compensation in the form of credit to the account of Smartstamp<sup>20</sup> users. However, users will also be given the choice of receiving compensation in the form of stamps or cheque (where applicable).

#### **Compensation for “part loss”**

- 3.24 Royal Mail deems “part loss” to be where a postal packet is received but some or part of the content is missing. Currently, the compensation arrangements for “part loss” is the same as those for damage, i.e. compensation for actual loss up to 100 x the cost of a 1<sup>st</sup> class letter stamp or the market value, whichever is the lower, where there is evidence of posting. Royal Mail may also refund postage if a replacement item has to be sent out. Royal Mail will only refund postage if the overall compensation payment does not exceed 100 x the cost of a 1<sup>st</sup> class letter stamp.
- 3.25 Royal Mail has proposed that compensation payments for “part loss” should be the same as the proposals for compensation for damage, i.e.
- 6 x 1<sup>st</sup> class letter stamps for items with no intrinsic value or no proof posting; or
  - the actual loss of the part that has been lost up to a maximum of 100 x the cost of a 1<sup>st</sup> class stamp and a refund of postage for items with an intrinsic

value and proof of posting even if a replacement item does not have to be sent.

3.26 Postcomm accepts that “part loss” could, in many circumstances, be treated the same as damage as the part that has been lost can be replaced at a cost. However, there may be some occasions where the part that has been lost cannot be replaced. There may also be some occasions where the loss of a part could render the whole item worthless. In these circumstances, Postcomm would expect Royal Mail to assess such cases on a case by case basis and where appropriate pay compensation for the actual loss of the whole item (not just for the part that has been lost) up to 100 x the cost of a 1<sup>st</sup> class letter stamp (or the maximum level of compensation purchased for standard parcels with enhanced compensation and Special Delivery (Next Day) not posted on account items), where there is evidence of posting and evidence of value.

### **Standard Parcels with enhanced compensation**

3.27 Customers using Royal Mail’s standard parcels service can take out enhanced compensation cover at the time of purchase. Enhanced compensation for £100, £250 or £500 is available for an additional fee on top of the postage costs. Customers are given a certificate of posting.

3.28 Currently, the maximum compensation payable for standard parcels with enhanced compensation is the actual loss incurred up to the market value of the item, or the maximum level of compensation purchased, whichever is the lower, where there is proof of posting.

3.29 Royal Mail is proposing the following compensation arrangements which are in line with its proposals for standard parcels (with no enhanced compensation).

**Table 3.1**

Standard parcels with enhanced compensation	Loss	Damage or part loss
Item has no intrinsic	Postage refund	Book of 6 x 1 <sup>st</sup> class

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<sup>20</sup> A service for businesses where postage can be bought and printed online.

value	(minimum 6 x 1 <sup>st</sup> class letter stamps)	letter stamps
Item has intrinsic value (with no proof of posting)	Postage refund (minimum 6 x 1 <sup>st</sup> class letter stamps)	Book of 6 x 1 <sup>st</sup> class letter stamps
Item has intrinsic value (with evidence of posting and enhanced compensation cover)	Postage refund plus compensation on basis of customer's actual loss. Compensation is subject to the maximum payable being the lower of the market value of the item and the maximum level of compensation purchased	Postage refund plus compensation on basis of customer's actual loss. Compensation is subject to the maximum payable being the lower of the market value of the item and the maximum level of compensation purchased

3.30 The maximum compensation payable for standard parcels with enhanced compensation cover is the actual loss incurred up to the market value of the item, or the maximum level of compensation purchased (rather than 100 x 1<sup>st</sup> class stamps), whichever is the lower, where there is proof of posting. Royal Mail is also proposing to refund postage on top of the compensation amount.

3.31 Postcomm is minded to agree to the proposals to align compensation arrangements for standard parcels with enhanced compensation with the other retail services.

### **Further investigation**

3.32 Royal Mail has expressed concern that the new compensation arrangements should not leave it unduly vulnerable to fraudulent and unwarranted claims. The current retail compensation scheme for delay provides for Royal Mail to have procedures which may include "arrangements for ensuring that

unwarranted claims are not met". Postcomm proposes that this provision should also apply to compensation arrangements for loss and damage.

3.33 Where there are concerns about a claim, for example, with the volume of claims made by a customer or a trend of claims has been identified, or where there are issues with any of the details supplied to support a claim, Royal Mail may request additional information or carry out further enquiries. The purpose of this will be to ascertain whether there is a genuine operational issue or whether a claim is fraudulent or unwarranted.

3.34 Where Royal Mail requests additional information when investigating a claim for compensation, it will contact the relevant person as soon as possible after receiving the claim. Royal Mail's overall aim is to receive all necessary evidence and other documentation to allow it to make a decision on a claim within 30 calendar days of receipt<sup>21</sup>.

#### **Retail exclusions in the compensation scheme for delay**

3.35 Postcomm's November 2006 consultation did not mention any issues relating to the retail exclusions in the compensation scheme for delay. Royal Mail has proposed changes to some of the retail exclusions in the delay scheme in order for these to be more consistent with the exclusions in the loss and damage scheme.

3.36 The exclusions, with Royal Mail's proposed changes in italics, are as follows:

Royal Mail shall be under no obligation to provide compensation –

a) *where the postal packet is not fully and correctly addressed in a manner which includes all the elements of the postal address (including the full postcode) written clearly on the front or on a label securely attached to the front of the cover or envelope, or the address is illegible;*

b) where the event giving rise to the claim was caused by circumstances outside Royal Mail's control, including exceptionally severe weather conditions, acts of terrorism and vandalism and acts of third parties with whom Royal Mail has no contractual relationship, but excluding the failure of the

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<sup>21</sup> This is dependent on Royal Mail receiving all necessary supporting documents and information from the claimant and other affected parties in time for it to make a decision.

employees, sub-contractors or agents of Royal Mail, to provide services to or for Royal Mail as a result of industrial action by them;

c) where a postal packet is posted in a manner that does not comply with the provisions of the scheme relevant to its conveyance under section 89 of the Act, or *is identified as containing prohibited contents as defined in the provisions of that scheme;*

*d) where a postal packet is undeliverable and/or has been returned to sender;*

e) where alternative delivery arrangements have been agreed with the customer, including, for example, through the use of services such as *Safepace*, PO Box delivery, Mail Collect and Post Restante, and the delay is caused by the customer or by the nature of the arrangements,

f) where a postal packet has been forwarded from the delivery address stated on the item *other than by Royal Mail under its redirection service,*

g) where postage *payable* for the postal packet in question is unpaid or underpaid,

h) where the claim relates to a postal packet posted with *or handled by* another postal operator,

*i) where the delay has arisen through the posting or receiving customer's own act or omission, or*

j) in such other circumstances as Postcomm, after consulting with Postwatch, may agree.

3.37 Postcomm considers the changes to be reasonable and is minded to agree to Royal Mail amending the current retail exclusions in the compensation scheme for delay.

### **Royal Mail's compensation and complaints information**

3.38 Royal Mail is required by its licence to provide details of the amount of compensation paid in relation to loss, damage and delay retail claims. Royal Mail is currently required to publish, in such a manner that will ensure reasonable publicity for it, and report the following information to Postcomm and Postwatch:

- the number of complaints received including the number of claims for compensation made;
- the number of claims for compensation in relation to which compensation was paid; and
- the amount of compensation (including any payments in lieu of compensation) that was paid,

in each case broken down by not less than ten of the main causes of the claims.

3.39 Royal Mail is also required to include with the above report a statement of the action it intends to take in the following year to address the causes of claims for compensation.

3.40 Postcomm does not propose any changes to these reporting requirements.

### Summary of proposals

3.41 The table below lists all the proposals in this chapter. Postcomm would welcome any comments on any of these proposals.

Table 3.2

Paragraph reference	Key issue discussed	Proposal
3.2 – 3.4	Compensation for mail that is purposely delayed	Royal Mail's letter to recipients affected should include details on how to claim compensation
3.5 – 3.7	Compensation during the Christmas period	Definition of delay and loss to be extended by one day for items posted in this period
3.8 – 3.10	Compensation for non-Special Delivery mail items sent to addresses excepted from a daily delivery	<ul style="list-style-type: none"> <li>• Claims for loss and delay to be considered on a case by case basis by Royal Mail for items sent to addresses excepted from a daily delivery</li> </ul>
3.11 – 3.12	Compensation for Recorded (Signed For) items	<ul style="list-style-type: none"> <li>• Compensation arrangements to be the same as ordinary 1<sup>st</sup> or 2<sup>nd</sup> class ordinary mail</li> </ul>
3.13 – 3.19	Compensation for Special Delivery Next Day (not posted on account)	<ul style="list-style-type: none"> <li>• Delay scheme to be clarified to show that compensation for delay is payable if the Special Delivery Next Day item has not been</li> </ul>

		<p>delivered within 24 hours of its original due time on the next working day.</p> <ul style="list-style-type: none"> <li>• No change to current provisions</li> </ul>
3.20 – 3.23	Compensation for users of metered mail or Smartstamp	<ul style="list-style-type: none"> <li>• Users of metered mail will continue to receive compensation in the form of stamps;</li> <li>• Users of Smartstamp will be able to choose whether compensation should be paid to them by credit to their account or by stamps or cheque (if applicable)</li> </ul>
3.24 – 3.26	Compensation for “part loss”	<ul style="list-style-type: none"> <li>• Same as compensation arrangements and payments for damage where the part can be replaced</li> <li>• Where the part loss renders the item worthless and/or the part cannot be replaced, compensation to be paid for the whole item up to 100 x cost of 1<sup>st</sup> class letter stamp and postage refund where there is evidence of posting and evidence of value.</li> </ul>
3.27 – 3.31	Standard parcels with enhanced compensation	<ul style="list-style-type: none"> <li>• Where item has no intrinsic value and/or where there is no proof posting, compensation payments for loss, part loss or damage will be the same as payments for standard parcels.</li> <li>• Where item has intrinsic value with proof of posting and proof of enhanced compensation cover, maximum compensation payable will be the actual loss incurred up to the market value of the item or the maximum level of compensation purchased, whichever is the lower. Postage refund will be in addition to the compensation paid.</li> </ul>
3.32 – 3.34	Suspect or repeat complaints and further investigation	<ul style="list-style-type: none"> <li>• Compensation arrangements for loss, damage and delay should allow Royal Mail to have procedures which may include “arrangements for ensuring that unwarranted claims are not met” e.g. to request additional information from the claimant,</li> </ul>

		<p>make further enquiries etc.</p> <ul style="list-style-type: none"> <li>• Royal Mail will request additional information required as soon as possible after receiving the claim with the overall aim of making a decision on the claim within 30 calendar days of receipt.</li> </ul>
3.35 – 3.37	Retail exclusions to compensation scheme for delay	Agree to Royal Mail's changes to some of the wording in the retail exclusions to the delay scheme to ensure more consistency with exclusions for loss and damage compensation arrangements
3.38 - 3.40	Royal Mail's compensation and complaints information	No change to current requirements in the licence

## 4. Proposals for retail compensation for delay, loss and damage

### Introduction

4.1 This chapter sets out in detail the proposals for the retail compensation arrangements for delay, loss (including part loss) and damage. It includes the levels of compensation payable and the evidence requirements for claimants.

### Overview

4.2 The table below sets out the proposals for compensation covering the following scheduled services: retail first class stamped and metered; retail second class stamped and metered and standard parcels. These proposed compensation arrangements will also apply to Recorded (Signed For) items sent using these services and Articles for the Blind.

**Table 4.0**

<b>Evidence</b>	<b>Item</b>	<b>Loss</b>	<b>Damage or Part Loss</b>	<b>Delay</b> (3 working days after due date)
<b>Basic</b> (address of sender & recipient, service used, postage paid, place & date of posting, description of content)	No intrinsic value	Postage refund (minimum 6 x 1 <sup>st</sup> class letter stamps)	Compensation of book of 6 x 1 <sup>st</sup> class letter stamps	Compensation of book of 6 x 1 <sup>st</sup> class letter stamps
	Intrinsic value	Postage refund (minimum 6 x 1 <sup>st</sup> class letter stamps)	Compensation of book of 6 x 1 <sup>st</sup> class letter stamps	Compensation of book of 6 x 1 <sup>st</sup> class letter stamps
<b>Additional</b> (basic evidence plus evidence of posting and evidence of item value for loss and damage)	Intrinsic value	Postage refund, plus compensation on basis of the customer's actual loss, subject to the maximum	Postage refund, plus compensation on basis of the customer's actual loss, subject to the maximum	Compensation of book of 6 x 1 <sup>st</sup> class letter stamps

		payable being the lower of the market value of the item and the scheme maximum of 100 x first class letter stamps	payable being the lower of the market value of the item and the maximum level of compensation purchased	
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4.3 The table below sets out the compensation arrangements for standard parcels with enhanced compensation cover.

**Table 4.1 – Standard parcels with enhanced compensation**

<b>Evidence</b>	<b>Item</b>	<b>Loss</b>	<b>Damage or Part Loss</b>	<b>Delay</b> (3 working days after due date)
<b>Basic</b> (address of sender & recipient, service used, postage paid, place & date of posting, description of content)	No intrinsic value	Postage refund (minimum 6 x 1 <sup>st</sup> class letter stamps)	Compensation of book of 6 x 1 <sup>st</sup> class letter stamps	Compensation of book of 6 x 1 <sup>st</sup> class letter stamps
	Intrinsic value	Postage refund (minimum 6 x 1 <sup>st</sup> class letter stamps)	Compensation of book of 6 x 1 <sup>st</sup> class letter stamps	Compensation of book of 6 x 1 <sup>st</sup> class letter stamps
<b>Additional</b> (basic evidence plus evidence of posting and evidence of item value for loss and damage)	Intrinsic value	Postage refund, plus compensation on basis of the customer's actual loss, subject to the maximum payable being the lower of the market value of	Postage refund, plus compensation on basis of the customer's actual loss, subject to the maximum payable being the lower of the market value of	Compensation of book of 6 x 1 <sup>st</sup> class letter stamps

		the item and the maximum level of compensation purchased	the item and the maximum level of compensation purchased	
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4.4 The table below sets out the compensation arrangements for Special Delivery Next Day (not posted on account).

**Table 4.2 – Special Delivery Next Day (not posted on account)**

<b>Evidence</b>	<b>Loss</b>	<b>Damage or Part Loss</b>	<b>Delay</b> (24 working hours after due time)	<b>Substantial Delay</b> (7 working days after due time)
Proof of posting is provided automatically to customers when purchasing the Special Delivery Next Day product	Fee refund, compensation on basis of the customer's actual loss, subject to the maximum payable being the lower of the market value of the item and the maximum level of compensation purchased	Fee refund, compensation on basis of the customer's actual loss subject to the maximum payable being the lower of the market value of the item and the maximum level of compensation purchased	£5	£10

### **Compensation for loss**

4.5 Whilst Royal Mail will record and investigate complaints about missing items, it will not make a payment for loss compensation where an item has not arrived until:

- 10 working days after the due date for Special Delivery Next Day items (not posted on account); or
- 15 working days after the due date for retail items other than Special Delivery Next Day (not posted on account).

Royal Mail will not pay compensation for both loss and delay for the same item.

4.6 Articles for the Blind will be eligible for loss compensation as if it were an item posted first class.

4.7 The tables below set out the evidence Royal Mail will require from the claimant when considering compensation claims for lost retail items:

**Table 4.3** – Where item has no intrinsic value or where proof of posting cannot be provided

	If claimant can provide Royal Mail with information on:	Claimant will receive:
Where item has no intrinsic value or where proof of posting cannot be provided	<ul style="list-style-type: none"> <li>• Sender's address</li> <li>• Recipients address</li> <li>• Service used</li> <li>• Postage paid</li> <li>• Place of posting and date of posting</li> <li>• Description of contents</li> </ul>	<ul style="list-style-type: none"> <li>• Apology</li> <li>• Explanation</li> <li>• Postage refund (minimum book of 6 x 1<sup>st</sup> class letter stamps)</li> </ul>

**Table 4.4** – Where item has an intrinsic value and proof of posting can be provided

	If claimant can provide Royal Mail with information on:	Claimant will receive:
Where item has an intrinsic value and proof of posting can be provided	<ul style="list-style-type: none"> <li>• Sender's address</li> <li>• Recipients address</li> <li>• Service used</li> <li>• Postage paid</li> <li>• Place of posting and date of posting</li> <li>• Description of</li> </ul>	<ul style="list-style-type: none"> <li>• Apology</li> <li>• Explanation</li> <li>• Postage refund (or Fee refund for Special Delivery Next Day items)</li> <li>• Compensation for</li> </ul>

	<p>content</p> <ul style="list-style-type: none"> <li>• Evidence of posting</li> <li>• Evidence of item value</li> <li>• Evidence of enhanced compensation cover (where applicable)</li> </ul>	<p>actual loss to claimant up to the market value of the item or 100 x 1<sup>st</sup> class letter stamp, (or maximum level of compensation purchased for standard parcels with enhanced compensation and Special Delivery Next Day), whichever is the smaller amount</p>
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### Compensation for damage or part loss

4.8 For the purpose of compensation payments, an item is considered to be damaged if it has suffered a degree of damage solely as a result of its transmission through the post, and excluding liability for any pre-existing damage, that reasonably impairs the material function or contents of the item.

4.9 “Part loss” is where a postal packet has been received and some or part of the content is missing.

4.10 Customers claiming for damage or part loss are required to retain the item plus packaging for inspection by Royal Mail. Compensation will not be payable:

- For damage only: if damage has been caused to the external packaging with the contents intact; or
- For damage or part loss: where items have not been adequately secured or wrapped/packaged to prevent damage or part loss from the normal transit through the post.

4.11 The amount of compensation to be paid will be calculated on the basis of the claimant’s actual loss i.e. the cost incurred to purchase, acquire or manufacture the item if damaged beyond repair (subject to age, condition and depreciation) or the cost to repair the item.

4.12 Articles for the Blind will be eligible for compensation for damage and part loss.

4.13 The tables below set out the evidence Royal Mail will require from the claimant when considering compensation claims for retail items:

**Table 4.5** – Where item has no intrinsic value but is so damaged that the message is destroyed or where claimant cannot meet evidential requirements for cash payment

	If claimant can provide Royal Mail with information on:	Claimant will receive:
Where item has no intrinsic value but is so damaged that the message is destroyed or where claimant cannot meet evidential requirements for cash payment	<ul style="list-style-type: none"> <li>• Sender's address</li> <li>• Recipients address</li> <li>• Service used</li> <li>• Postage paid</li> <li>• Place of posting, date of posting and date of delivery</li> <li>• Description of contents</li> <li>• Description of packaging and condition of mail or item itself</li> </ul>	<ul style="list-style-type: none"> <li>• Apology</li> <li>• Explanation</li> <li>• Book of 6 x 1<sup>st</sup> class letter stamps</li> </ul>

**Table 4.6** – Where item has an intrinsic value and loses value through damage, and claimant can meet evidential requirements for cash payment

	If claimant can provide Royal Mail with information on:	Claimant will receive:
Where item has intrinsic value and loses value through damage, and claimant can meet evidential requirements for cash payment	<ul style="list-style-type: none"> <li>• Sender's address</li> <li>• Recipients address</li> <li>• Service used</li> <li>• Postage paid</li> <li>• Place of posting, date of posting and date of delivery</li> <li>• Description of contents</li> </ul>	<ul style="list-style-type: none"> <li>• Apology</li> <li>• Explanation</li> <li>• Postage refund (or Fee refund for Special Delivery Next Day items)</li> <li>• Compensation for cost of item if damaged beyond</li> </ul>

<sup>22</sup> Note requirement to retain item and packaging for inspection

	<ul style="list-style-type: none"> <li>• Description of packaging and condition of mail or item itself<sup>22</sup></li> <li>• Evidence of loss of value of damaged goods</li> </ul>	repair or cost of repair to claimant up to the market value of the item or 100 x 1 <sup>st</sup> class letter stamp (or maximum level of compensation purchased for standard parcels with enhanced compensation and Special Delivery Next Day) whichever is the smaller amount
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### Compensation for delay

4.14 For the purpose of compensation payments, Royal Mail will consider:

- a retail item other than Special Delivery Next Day (not posted on account) to be 'delayed' if it arrives 3 working days (or 4 working days for items posted during the Christmas period) after the due date; and
- a Special Delivery Next Day (not posted on account) item to be 'delayed' if it has not arrived within 24 hours of its original due time on a working day (not including Saturday unless the Saturday guarantee service has been purchased).

4.15 Items officially redirected under Royal Mail's redirection service will be eligible for compensation for delay. Royal Mail will consider a redirected item to be 'delayed' if it arrives 6 working days (or 8 working days for items posted during the Christmas period) after the original due date.

4.16 Articles for the Blind will be eligible for compensation for delay as if it were an item posted first class.

4.17 Royal Mail will not pay compensation for delay to a redirected item and goodwill for a redirection failure in respect of the same incident.

4.18 Table 4.7 below sets out the evidence Royal Mail will require from the claimant when considering compensation claims for delayed retail items other than Special Delivery Next Day (not posted on account):

<b>Table 4.7</b>	If claimant can provide Royal Mail with information on:	Claimant will receive:
For delayed items (Royal Mail reserves the right to ask for additional evidence where appropriate)	<ul style="list-style-type: none"> <li>• Sender's address</li> <li>• Recipients address</li> <li>• Service used</li> <li>• Postage paid</li> <li>• Place of posting, date of posting and date of delivery</li> <li>• Description of contents</li> </ul>	<ul style="list-style-type: none"> <li>• Apology</li> <li>• Explanation</li> <li>• Compensation of 6 x 1<sup>st</sup> class letter stamps</li> </ul>

### Summary of differences between the current schemes and the proposed schemes

#### Compensation payments – basic evidence for items with no intrinsic value

4.19 The current schemes do not provide compensation for loss in these circumstances. Royal Mail proposes a compensation payment of a book of 6 x 1<sup>st</sup> class letter stamps to cover the postage costs for loss claims in the future. If postage was more than the value of 6 x 1<sup>st</sup> class letter stamps, Royal Mail will refund the amount of postage paid.

4.20 The current schemes do not provide compensation for damage or part loss in these circumstances. Royal Mail proposes a compensation payment of a book of 6 x 1<sup>st</sup> class letter stamps for damage or part loss claims in future.

4.21 For delay, the current scheme provides compensation in the form of a book of 12 x 1<sup>st</sup> class letter stamps. Royal Mail proposes that in future, compensation will be reduced to a book of 6 x 1<sup>st</sup> class letter stamps.

#### Compensation payments – basic evidence for items with an intrinsic value

4.22 The current schemes do not provide compensation for loss in these circumstances. Royal Mail proposes a compensation payment of a book of 6 x 1<sup>st</sup> class letter stamps to cover the postage costs for loss claims in the future. If postage cost more than the value of 6 x 1<sup>st</sup> class letter stamps, Royal Mail will refund the amount of postage paid.

- 4.23 The current schemes do not provide compensation for damage or part loss in these circumstances. Royal Mail proposes a compensation payment of a book of 6 x 1<sup>st</sup> class letter stamps for damage and part loss claims in future.
- 4.24 For delay, the current scheme provides compensation in the form of a book of 12 x 1<sup>st</sup> class letter stamps. Royal Mail proposes that in future, compensation will be reduced to a book of 6 x 1<sup>st</sup> class letter stamps.

Compensation payments – additional evidence for items with no intrinsic value

- 4.25 The current schemes do not provide compensation for loss in these circumstances, although Royal Mail offers a goodwill payment of 12 x 1<sup>st</sup> class letter stamps. Royal Mail proposes a compensation payment of a book of 6 x 1<sup>st</sup> class letter stamps to cover the postage costs for loss claims in the future. If postage costs more than the value of 6 x 1<sup>st</sup> class letter stamps, Royal Mail will refund the amount of postage paid.
- 4.26 The current schemes do not provide compensation for damage or part loss in these circumstances. Royal Mail proposes a compensation payment of a book of 6 x 1<sup>st</sup> class letter stamps for damage and part loss claims.
- 4.27 The current scheme provides for compensation of £5 for delay claims and £10 for substantial delay claims. Royal Mail proposes to remove the substantial delay category for non-Special Delivery items and issue all delay claimants with a book of 6 x 1<sup>st</sup> class letter stamps.

Compensation payments – additional evidence for items with an intrinsic value

- 4.28 For loss claims of this nature, the current schemes provide for compensation of the customer's actual loss. Royal Mail defines this as the cost to purchase, acquire or produce the original item. This is subject to the maximum compensation payable being the lower of the market value of the item and Royal Mail's own scheme-imposed maximum of 100 x 1<sup>st</sup> class stamp<sup>23</sup>. Postage is refunded if the overall payment does not exceed 100 x 1<sup>st</sup> class letter stamp. The only change proposed by Royal Mail is that in future, even if it pays out the maximum compensation of 100 x 1<sup>st</sup> class letter stamp, it will also refund postage on top of this.

- 4.29 For damage claims of this nature, the current schemes provide for compensation of the customer's actual loss i.e. the cost incurred to purchase, acquire or manufacture the item if it has been damaged beyond repair, or the cost or repair (subject to age, condition and depreciation). This is subject to the maximum payable being the lower of the market value of the item and Royal Mail's own scheme-imposed maximum of 100 x 1<sup>st</sup> class stamp<sup>23</sup>. Royal Mail may refund postage only when the item has to be resent, subject to the overall payment not exceeding 100 x 1<sup>st</sup> class stamp. Royal Mail proposes that in future, postage will be refunded even if the item does not have to be resent or even if it pays out the maximum compensation.
- 4.30 The current scheme provides for compensation of £5 for delay claims and £10 for substantial delay claims of this nature. Royal Mail proposes to remove the "substantial delay" category for non-Special delivery items and reduce payments to a book of 6 x 1<sup>st</sup> class stamps for delay of 3 working days or more.

#### **Views requested**

- 4.31 Postcomm would welcome comments on:
- **the proposals for compensation for loss;**
  - **the proposals for compensation for damage; and**
  - **the proposals for compensation for delay.**

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<sup>23</sup> Or the maximum compensation purchased for Special Delivery Next Day and Standard Parcels with enhanced compensation

## 5. Proposals for Bulk Compensation for Delay

5.1 This chapter reviews the extent to which the bulk mail element of the compensation scheme for delay needs to be regulated. It proposes that bulk mail products should be removed from the “standards of service compensation scheme” (referred to in this chapter as the compensation scheme for delay) with effect from 1 April 2009.

### Background

5.2 Royal Mail is required by Condition 4 of its licence to maintain a compensation scheme for delay. The current scheme (determined by Postcomm) includes compensation arrangements for both retail and bulk mail. The following Royal Mail bulk mail products are included in the compensation scheme for delay:

- Bulk First Class – PPI 1, Mailsort 1, Presstream 1 and Response Services 1<sup>24</sup>;
- Bulk Second Class – PPI 2, Mailsort 2, Presstream 2 and Response Service 2<sup>25</sup>; and
- Bulk Third Class – Mailsort 3.

5.3 Of these, the universal service products are: Mailsort 1400 (first and second class) which is provided under the Mailsort 1 and Mailsort 2 generic products and Cleanmail (first and second class) which is provided under the PPI (Postage Paid Impression) first and second class generic products.

5.4 To qualify to use Mailsort 1400, customers must send at least 4,000 letters at a time (2,000 if the entire mailing is within the same postcode area) or 1,000 large letters, A3 packets and packets in a single posting and sort their mail into 1,400-1,600 selections based on Royal Mail’s delivery offices. Cleanmail is a PPI product. To use PPI, a customer has to have a credit account with Royal Mail. Cleanmail is considered Royal Mail’s “entry level” bulk mail product, especially for small businesses that cannot meet some of the criteria of the

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<sup>24</sup> Excluding Packetpost Returns and Freepost Name

<sup>25</sup> Excluding Packetpost Returns and Freepost Name

pre-sort products. Cleanmail requires all mail to be optical character readable (OCR) or bar-coded. The minimum posting is 1,000 items.

- 5.5 Royal Mail says that in 2005/6 Small and Medium Sized Enterprises (SMEs) (as classed on the basis of their actual or likely spend with Royal Mail) posted about 2 billion bulk mail items (i.e. bulk mail products covered by the compensation scheme for delay). These customers use the whole range of generic bulk products but the biggest grouping, with about half of the volume, is the PPI generic product group (standard tariff mail posted on account, Cleanmail, Packetpost and Packetsort (which includes Flatsort)).
- 5.6 Under the current compensation scheme for delay, the amount of compensation payable to bulk mail customers is calculated according to Royal Mail's performance against its bulk mail licence targets that year. If Royal Mail fails its target by less than 1%, no compensation will be payable to customers. If it fails by 1% or more, each customer is entitled to receive back as compensation 0.1% of its annual expenditure on a particular service for each 0.1% of failure by Royal Mail to achieve the standard for that service in a given year (subject to certain conditions). The maximum level of compensation that will be paid is 5% of a customer's expenditure as compensation on the bulk products that fail in that year. Compensation for delay is paid out to bulk mail customers automatically and on an annual basis if the relevant quality of service target has not been met.
- 5.7 Bulk mail compensation paid out by Royal Mail for each year the compensation scheme for delay has been in operation is as follows<sup>26</sup>:

	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>
<b>Total compensation paid</b>	<b>£41.4m</b>	<b>£23.5m</b>	<b>£844,525</b>

<sup>26</sup> Compensation amounts in these tables do not include the additional payments following the High Court judgement on the interpretation of 'default of credit terms'. See paragraphs 1.46-1.47 for an explanation. (These figures reflect Royal Mail's overall liability – a small proportion of the amounts will not have been physically paid due to closed or inactive accounts.)

5.8 The following table<sup>26</sup> gives information about the amount of compensation paid to PPI customers<sup>27</sup>:

Year	Quality of Service performance		Amount of compensation paid by Royal Mail		
	1 <sup>st</sup> class PPI*	2 <sup>nd</sup> class PPI**	1 <sup>st</sup> class PPI compensation paid	2 <sup>nd</sup> class PPI compensation paid	Total bulk compensation paid by Royal Mail
2003-04	83.50%	94.60%	£17.2m	£10.1m	£41.4m
2004-05	87.50%	96.00%	£12.6m	£6.5m	£23.5m
2005-06	92.20%	97.40%	0	0	£844,525

\*1<sup>st</sup> class PPI target = 90.6% in 2003-04 & 2004-05 and 91.1% in 05-06.

\*\* 2c PPI target = 97.4%

5.9 On 26 June 2007, Postcomm gave Royal Mail a Letter of Comfort that said that the Commission had agreed to Royal Mail's request to suspend, until the end of the current financial year (2007-08), the payment of compensation to bulk mail customers under certain conditions. A final decision on the amount will not be made until after the end of this financial year, when Royal Mail's final quality of service results are known. In making its decision at that point, Postcomm said that it would expect Royal Mail to be able to demonstrate that the industrial action (a) arose as a result of carrying out its transformation plans and not for some other reason, and (b) had a direct causal link to quality of service failures.

### **Continuation of the bulk mail element of the compensation scheme for delay**

5.10 In the consultation document, Postcomm asked for views on whether the bulk mail element of the compensation scheme for delay should be continued. Postcomm suggested that, as no other licensed operator is obliged by Postcomm to provide a bulk mail compensation scheme, the enforceable nature of Royal Mail's bulk mail compensation scheme may provide it with a

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<sup>27</sup> Of the bulk mail products included in the compensation scheme for delay, SMEs are most likely to use the PPI product.

commercial advantage over its competitors which can be considered a barrier to competition.

### Responses

- 5.11 In its submission, Royal Mail said that a regulated bulk mail compensation scheme is no longer appropriate in an open and increasingly competitive market, in particular for any products that are not universal service products. Royal Mail said that it does not believe that the existence of the regulated bulk mail compensation scheme has been a key factor in winning or losing contracts. In addition, Royal Mail points out that it has already voluntarily put in place specific agreed arrangements with some bulk mail customers, whereby bulk claimants are able to negotiate with Royal Mail a set fee per lost item which can be claimed at intervals. It points out that there are also contractual arrangements with downstream access customers for delayed items and that the continuation of those arrangements is a matter for Royal Mail and its customers.
- 5.12 Postwatch believes that the bulk mail compensation scheme should continue to be a licence requirement but that if the market continues to develop over the next 2-3 years it may no longer be necessary. Postwatch suggested that the next price control review for the period after 2010 would be an ideal time to make any changes to the current bulk mail compensation arrangements.
- 5.13 The Direct Marketing Association (DMA), the Incorporated Society of British Advertisers (ISBA) and the Mail Users Association (MUA) and other customers all supported the continuation of the bulk mail scheme.
- 5.14 DMA said that it believes that the scheme contributed to the improvements in Royal Mail's quality of service and had helped to restore users' confidence. It recognised that financial penalties had also played a part in this but pointed out that they are not paid to customers. The DMA recognised that there is no need for a compensation scheme in a competitive market since customers can switch from poorly performing suppliers. However it does not consider that there are competitive products for Mailsort 1 or 3 and that bulk mail products should therefore remain in the compensation scheme.

- 5.15 ISBA expressed concerns that the removal of the scheme may jeopardise what it considers are the current acceptable levels of service. It believes that the scheme should remain at its current or an enhanced level and that it acts as an incentive for Royal Mail to achieve minimum standards. ISBA does not believe that customers would continue to tolerate poor performance, even at a low price, in a competitive market.
- 5.16 The MUA stated that when Royal Mail's targets are not met, customers' costs start to escalate (for example complaint levels rise, they have to send replacement goods or goodwill tokens) and that they should have a right to compensation.
- 5.17 LoveFilm International said that the bulk compensation scheme works well and saves a lot of work that would have to be done to provide information on individual delayed mail items.
- 5.18 Grolier Ltd said that based on Royal Mail's current levels of performance, the bulk mail scheme was of no benefit.
- 5.19 Redactive Media Group said that it was essential to retain the scheme.
- 5.20 The Mail Competition Forum (MCF) is of the view that individual mail service providers should have the freedom to negotiate specific terms with their customers and that this is a point of competitive difference. It says that if Royal Mail does not provide bulk mailers with sufficient levels of redress, then customers can determine for themselves whether or not to move to the competition. While Royal Mail's bulk mail compensation scheme may not generally be a barrier to competitive entry (price and service being more significant factors in purchasing decisions), the MCF considers that Postcomm is in effect setting Royal Mail's redress policy and negotiation stance. This means that Postcomm is enforcing a market standard which other licensed operators have to take into account when establishing their agreements with mailers. The MCF says that redress terms should be an area that market forces dictate, not a Regulator. The MCF states that larger mailers can negotiate directly with Royal Mail. It considers that smaller mailers would be able to use trade associations (such as the MUA) to negotiate competitive terms. Royal Mail's licence and competition law will prevent any unfair

discrimination and anti-competitiveness. The MCF suggests that Postcomm involvement should be limited to instances where Royal Mail applies terms to wholesale customers that fall below the parameters it sets for its retail customers since that would be anti-competitive. However if the bulk compensation scheme is retained as a licence requirement, the MCF considers that the current quality of service measures do not provide wholesale customers with the assurance that performance standards are being complied with. The MCF believes that Royal Mail should be required to speed up development of these measures.

## Discussion

- 5.21 In line with the principles of Better Regulation, Postcomm wants to remove any regulation that may be unnecessary in the current postal environment. The Better Regulation Taskforce advises that regulation should be relevant to current conditions, and specifically that:

*Regulations should be reviewed on a regular basis to ensure that they remain necessary and relevant. Prescriptive regulation quickly becomes outdated in areas where market conditions or technologies change rapidly, and may inhibit innovation.<sup>28</sup>*

- 5.22 Postcomm's consultation on the Strategy Review stated that:

*Postcomm has a role in promoting the development of competition between Royal Mail and rival postal operators ... Regulation should be targeted at those parts of the market where competition can be least expected. Having regard to Postcomm's statutory duties, regulation can be relaxed or removed when and where competition is sufficiently developed, and where deregulation is likely to promote the development of competition.<sup>29</sup>*

- 5.23 In putting forward the current proposals, Postcomm has had regard to the principles of Better Regulation and in particular has considered whether the bulk mail compensation scheme is appropriately:

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<sup>28</sup> Better Regulation Taskforce – Principles of Good Regulation (leaflet) published on 1 April 2006, pg 9

- targeted – is it necessary to meet a specified problem – would the absence of a regulated scheme mean an unacceptable risk of detriment to bulk mail users and/or the development of competition? A regulated scheme might be unnecessary if:
  - the continuation of the scheme creates perverse incentives for customers not to seek out better offers and therefore frustrates development of effective competition;
  - there are sufficient incentives on Royal Mail to consistently deliver good quality of service performance without the scheme (for example because of the threat of development of effective competition in mail or the possibility of customers moving to other forms of media such as email); or
  - customers have sufficient choice to protect their interests.
- proportionate - does it manage the risk of harm to customers in a way that entails the minimum necessary regulatory intervention? This raises issues about the scope of the scheme (for example whether it covers the right products).

5.24 Implicit in the evaluation of these factors is a judgement on the appropriate balance to be struck between the extent to which customers have choice today and the way in which competition is likely to develop.

***Is the current scheme appropriately targeted and proportionate?***

5.25 A scheme created by the regulator is unlikely to reflect fully the evolving needs of customers. The current scheme was set up in 2003, three years before full liberalisation, at a time when there were only three other licensees<sup>30</sup> and when Royal Mail was not achieving its recent high standards of service. In this context the bulk mail compensation scheme was aimed at providing an appropriate incentive for Royal Mail (in the absence of competition) to achieve acceptable quality of service standards. In addition, it was felt that a bulk mail compensation scheme would give customers confidence that service failure

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<sup>29</sup> Postcomm's Strategy Review, the postal market – 2010 and beyond: Key questions for stakeholders (August 2006) pg 87

<sup>30</sup> Securicor Omega Express, TNT Post UK Limited and UK Mail.

would lead to adequate compensation. However, Postcomm recognised that as competition developed it would need to review the extent to which there needed to be a regulated scheme<sup>31</sup>.

5.26 Although necessary four years ago, it is more appropriate now to start to move towards a market driven outcome, perhaps with different schemes reflecting the different needs of different types of customers. Continuation of a regulated scheme may distort customer behaviour and may act as a barrier to switching by increasing switching costs. For example:

- customers may view the scheme as comfort that they will get compensation for poor performance. This means they are not incentivised to put pressure on Royal Mail to improve its performance with a threat of switching, or to switch away if performance does not improve;
- compensation is not immediate so it may act as retention tool for Royal Mail – customers are likely to wait until after year end to see what performance overall is and whether they will get compensation rather than switch within year in reaction to poor quality of service<sup>32</sup>.

5.27 The current compensation scheme does not necessarily target those customers who have suffered poor performance. A bulk mail customer can get compensation if the performance of the product they use is satisfactory but the product's group performance is below target and vice versa. This is especially the case for SMEs who use PPI since the weighting of higher volume products is greater within each group.

5.28 Other conditions in Royal Mail's licence provide continuing protection for customers. Postcomm will be able to monitor the terms of compensation schemes that Royal Mail offers - compensation terms offered as part of a tender process must be notified to Postcomm<sup>33</sup>. Customers will remain

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<sup>31</sup> Review of Royal Mail Group Plc's price and service service quality regulation, February 2003: final proposals document, paragraph 9.57

<sup>32</sup> In fact customers would be eligible for any compensation for any part of the year they have a qualifying account. However, if the account is closed before the end of the year compensation will not be paid automatically to them – they need to apply for it instead.

<sup>33</sup> Condition 7

protected from unduly discriminatory schemes<sup>34</sup> – Royal Mail must be able to objectively justify any differences in compensation schemes it offered to different types of customers.

***Is competition sufficiently developed to remove the bulk compensation scheme?***

- 5.29 Bulk mail currently accounts for approximately 86% of the UK postal market, with the top 500 business mailers accounting for around 50% of the mail volumes. The fiercest competition for customers is being conducted in the upstream part of the postal pipeline. There have been significant changes since the bulk compensation scheme was introduced in 2003. The UK postal market has been fully liberalised since 1 January 2006 and there are now 18 licensed operators including Royal Mail. In addition, Royal Mail's quality of service performance has improved since 2003 and in 2006-07 it achieved 11 out of 12 targets (the target that it failed was not a bulk mail target).
- 5.30 Postcomm considers that the way in which the market has developed over the last three years indicates that a phased and careful approach to deregulation will help to stimulate market driven outcomes that will better reflect customers' needs and thereby help to improve the effectiveness of the competitive market.
- 5.31 Postcomm is concerned that the licence requirement to have a compensation scheme that includes bulk mail acts as a barrier to competition in the mail market. As long as Postcomm requires Royal Mail to provide a compensation scheme for its bulk customers, any bulk mailer wanting security in terms of compensation payments for poor standards of service will be attracted to the scheme. In particular, during times of poor service, customers have no incentive to switch away from Royal Mail since they know there is likely to be a payment due to them. In addition, instead of negotiating commercial terms for compensation, bulk mail customers take the scheme imposed by the regulator. Therefore, there is no accurate idea of what the market need for quality of service compensation actually is.

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<sup>34</sup>Condition 11

5.32 Postcomm does not consider that it is appropriate to wait to remove the requirement to have a bulk compensation scheme until the postal market could be considered “truly competitive” as the DMA and MUA suggest (although they have not provided a definition of what that means). Many bulk mailers have switched to other operators or have entered into downstream access agreements with Royal Mail. According to Royal Mail’s latest figures (July 2007) approximately 344 million items of mail per month are now handled under access arrangements. In particular, large bulk mailers expect a high level of service quality (often more than the targets in Royal Mail’s licence). Quality is monitored on a daily basis and the customer can receive daily reports. Compensation terms are negotiated as an integral part of the tender process.

***What will the impact on customers be if there is no regulated scheme?***

*Customers using Royal Mail’s bulk mail products who do not have a downstream access agreement*

5.33 Royal Mail has told Postcomm that it would consider introducing its own bulk compensation scheme as part of its bulk mail contract, if this is what customers want. It would be able to negotiate terms for any scheme with its customers (for example, the amount of compensation payable, the triggers that would lead to compensation being paid, the circumstances in which compensation would not be paid, etc). If Royal Mail enters into a contract following a competitive tender<sup>35</sup> by a customer, Royal Mail must, amongst other things, provide Postcomm with a written copy of the contract (or a summary of its main terms if a written contract has not been concluded at that point) within seven days. Postcomm considers terms relating to compensation as “main terms”. This provides a safeguard for customers - if Royal Mail introduced different schemes for different types of bulk mail customer it would have to be able to provide objectively justifiable reasons why the schemes were different, otherwise Postcomm could investigate it for potentially anti-competitive behaviour.

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<sup>35</sup> This is a process which is open to other postal operators and to which such operators can reasonably be expected to be capable of responding.

*Access operators and customers using Access*

- 5.34 If Royal Mail were to introduce its own bulk compensation scheme for customers who use its bulk mail products but who do not have a Downstream Access Agreement, it would have to ensure that it did not show those customers undue preference compared to customers or operators with an Access Agreement. It would also have to ensure that it did not unduly discriminate against any type of customer or access operator. Postcomm considers that this will be an incentive for Royal Mail to develop an Access compensation scheme if it develops one for customers who do not use Access.
- 5.35 The Access Agreements sets a "Service Standard" of 95% for next day delivery for the conveyance and delivery of access mail by Royal Mail. However, because Royal Mail did not (at the time of agreeing access terms) have a measurement system to measure the Service Standard, compensation is determined by using Royal Mail's performance on Mailsort 1 as a proxy. A comparison is made between the performance of Mailsort 1 against a "Compensation Target", which is 1% above the licence target for the bulk first class grouping (i.e. 91% + 1%). Compensation is calculated using the same calculation methodology as the bulk mail compensation scheme. No compensation has ever been paid under the Access Agreements; since the first agreement was signed, Royal Mail has always achieved the Mailsort 1 licence target.
- 5.36 When agreeing the last price control, Royal Mail committed to having a measurement system in place for downstream access from April 2007. This would avoid the need to use a proxy for calculating compensation for downstream access. This measurement system has now been introduced and Royal Mail is currently reporting to Access customers/operators their individual quality of service results (i.e. results specific to each customer) and has been doing so for a few months. However, even though an access measurement system is in place, this has not yet led to amendments to the Access Agreements.

5.37 The Access Agreements makes frequent reference to the bulk compensation scheme. For example:

- “the [amount of rebate] will be calculated and applied on the same basis [...] as the [bulk compensation scheme]”<sup>36</sup>;
- “the [amount of rebate] shall be payable to the customer within one month of the Royal Mail announcement made in accordance with paragraph 17 of the [bulk compensation scheme]”<sup>37</sup>; and
- “until such time as a specific compensation/performance rebate scheme for Access Agreements is introduced [...] in the event that the Commission changes the [bulk compensation scheme], the [amount of rebate] [...] shall be varied to bring it in line with any such revised [bulk compensation scheme]”<sup>38</sup>.

5.38 So although the Access Agreements makes provision for changes that may be made by Postcomm to the bulk compensation scheme, they do not explicitly anticipate that the scheme may be abolished.

5.39 Postcomm considers that this is therefore an appropriate opportunity for the Access Agreement to be changed to reflect the new measurement processes that are in place and to introduce a commercially negotiated compensation scheme. This would ensure that Access performance can be agreed, measured and compensated without the need for direct regulation.

**What are your views on the changes that may need to be made to the Access agreement?**

**Do you consider that there will be any difficulties in implementing these changes to the Access agreement? If so, please say what they are.**

### **Postcomm’s proposal**

5.40 Postcomm considers that in a developing competitive market, for customers who use bulk mail products, the disadvantages of continuing to regulate a compensation scheme outweigh the advantages of having one. Postcomm

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<sup>36</sup> Access Agreement Schedule 1 paragraph 1.7

<sup>37</sup> Access Agreement Schedule 1 paragraph 1.9

<sup>38</sup> Access Agreement Schedule 1 paragraph 1.13

can see no justification in continuing to regulate a bulk compensation scheme after 31 March 2010. By that time the scheme will be 7 years old in a market that has been fully liberalised for 4 years; it is very unlikely that it will still be relevant to customers' needs. Postcomm therefore proposes to remove the requirement on Royal Mail to provide a bulk compensation scheme.

### **A phased approach to deregulation - 2009 or 2010?**

- 5.41 It is likely that Royal Mail and other operators will need time to develop and implement their own compensation arrangements, if they consider that there is sufficient customer demand to do so. Postcomm therefore considers that it is appropriate to provide an adequate transitional period prior to removing the requirement for a regulated scheme. This period will also provide other operators with time to increase their marketing efforts to target customers who may not currently have sufficient incentive to switch or who they may not have targeted before. It should also allow sufficient time for any consequential changes to be made to Access agreements.
- 5.42 Postcomm's initial view is that keeping a regulated scheme in place until 31 March 2009 will provide operators and customers with sufficient time to adjust to this aspect of deregulation. Postcomm's final decision on whether to abolish the scheme should be made by March 2008; that would allow 12 months to develop and implement new schemes (although there is nothing to prevent schemes being changed after that subject to (for Royal Mail only, because of its dominant market position) requirements on undue discrimination and undue preference).
- 5.43 In proposing March 2009, Postcomm has also taken into account the constraints on its own resources and those of the industry at the end of 2009 and the beginning of 2010. A new price control is due to be implemented on 1 April 2010. Postcomm's experience is that in the months running up to a new price control, considerable input is required from Royal Mail, other operators and customers in developing its proposals and helping to inform its decisions. It would therefore be preferable if the focus on developing alternatives to a regulated bulk compensation scheme was over by April 2009 rather than continuing in the period up to 2010.

**What are your views on Postcomm's proposal to remove a requirement for a bulk compensation scheme for delay from Royal Mail's licence?**

**What are your views on the date at which the bulk mail compensation scheme should be removed?**

### **Suspension of the bulk scheme in 2007-08**

5.44 Royal Mail is currently experiencing a series of strikes and other industrial action by the Communication Workers' Union. Industrial action is very likely to cause quality of service to fall. In the past, quality of service failures have resulted in payment of compensation to bulk mail customers. Many customers are likely to argue that they need the protection of a regulated scheme to compensate them for poor service as a result of industrial action.

5.45 However, in June 2007, Postcomm agreed to Royal Mail's request to suspend, until the end of the current financial year (i.e. 31 March 2008), the payment of compensation to bulk mail customers, and to ensure that the company is not subject to a downward adjustment to its allowed revenues (known as the 'C factor'), where quality of service targets have not been met because industrial action has taken place. Postcomm's agreement to these suspensions is subject to some important safeguards for customers:

- a final decision on the amount will not be made until after the end of this financial year when Royal Mail's final quality of service figures are known. In making its decision at that point, Postcomm will expect Royal Mail to be able to demonstrate that the industrial action (a) arose as a result of carrying out its transformation plans and not for some other reason, and (b) had a direct causal link to quality of service failures; and
- after the end of the financial year, Postcomm will convene an open meeting at which Royal Mail will present the main points in its application. Participants will be able to ask for further explanation of the justification for agreement by Postcomm to Royal Mail's request.

### **How should exclusions to the bulk compensation scheme be interpreted?**

5.46 Postcomm's policy intention when the bulk compensation scheme was drafted was that a customer would not be eligible for compensation if, over the course

of a year, they had not fully paid at least 80% of their invoices by the due date. Following a Judicial Review brought by Postwatch, the Court of Appeal decided that the way in which the scheme was actually drafted meant that if at a particular date a customer had paid their invoices then they would be eligible for compensation on all accounts that were not in default/arrears on that date.

- 5.47 In accordance with the Court of Appeal's judgement, Royal Mail subsequently decided that for the customers eligible for bulk compensation since the scheme came into effect on 1 April 2003, the date to assess whether a customer is in default of credit terms for the previous year is the date on which Royal Mail announced compensation. Customers were eligible for compensation on all accounts that were not in default/arrears on the dates compensation was announced. It has now paid £21.2m<sup>39</sup> additional compensation to bulk mail customers for the years 2003-06.

### Responses

- 5.48 Royal Mail's response supports the continued ability to exclude mailings that were non-compliant with the terms and conditions of the contract for the relevant service from the bulk compensation scheme. Royal Mail states that non-compliant mailings incur additional costs and create difficulties in achieving the service standards for that mailing.
- 5.49 Other respondents were generally in favour of the current triggers and exemptions. However, the DMA raised concerns over the clarity of Royal Mail's criteria and has called for the existing ambiguities over when an account is considered paid to be defined more exactly.
- 5.50 ISBA questioned the appropriateness of linking Royal Mail's debt recovery process to a compensation scheme designed to improve service standards by the requirement to pay 80% of invoices within 30 days.

### Discussion

- 5.51 The process for changing the compensation scheme is complex and time consuming. Changes can only be made in the following ways:

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<sup>39</sup> This is the net figure - the overall liability including closed accounts is £23.1m.

- Following a bi-annual review by Royal Mail and Postwatch, Postwatch can recommend changes to the scheme. If Postcomm agrees to the changes Royal Mail must either make the changes or publish its reasons for declining to do so; or
- Royal Mail may at any time propose changes to the scheme to Postwatch. If Postwatch agrees, then the proposed changes must be notified to Postcomm at least three months before the changes are proposed to take effect. The changes will take effect if Postcomm does not (within two months of receiving the proposal), direct that the changes not be made; or
- Royal Mail can propose modifications directly to Postcomm for agreement.

5.52 If Royal Mail now wanted to change the scheme to give effect to the original policy intention, it seems very unlikely that Postwatch would agree to the proposal. Postcomm would therefore consider that it should consult on Royal Mail's proposed change. That consultation would take several months. In addition, as with the current scheme, there would be a risk that the proposed redrafting did not fully meet the policy intention.

5.53 Given the limited nature of the duration of the existing scheme (to 1 April 2010 at the latest), the complexity involved in redrafting it and the consultation process that would be necessary before any revised scheme could be implemented, Postcomm considers that the most proportionate and targeted way to proceed is for Royal Mail not to seek to amend the scheme but to continue to implement the Court of Appeal's interpretation of when customers are eligible for compensation.

**What are your views – should the Court of Appeal's interpretation stand for the remainder of the scheme or should the scheme be redrafted?**

## **Reviewing Royal Mail's decisions on eligibility for bulk compensation**

5.54 Currently a customer may request an investigation by Royal Mail in order to prove that it has a reasonable excuse for default of its credit terms. Royal Mail is obliged to review its decision in relation to compensation if the customer is unhappy with the outcome. If the customer considers that Royal Mail's decision is still unsatisfactory after a review, the case may be referred to Postwatch who, in turn, may refer it to Postcomm.

### Responses

5.55 ISBA feels that its claims have not always been treated with sufficient seriousness by Royal Mail in the past. They hope that any new scheme would contain a significantly improved appeals process.

5.56 Royal Mail has pointed out that during the 2004/05 and 2005/06 schemes period there were no cases where Royal Mail's internal review was unsatisfactory and no referrals were made to Postwatch.

### Discussion

5.57 Postcomm considers that the current referral process is satisfactory. However, Postwatch is due to be merged with a new National Consumer Council in late 2008. Therefore, Postcomm proposes that referrals should continue to go to Postwatch, or if Postwatch no longer exists, to another appropriate body such as the New National Consumer Council which will assume some of Postwatch's current responsibilities from October 2008.

## **Entitlement to compensation**

5.58 Compensation for delay is payable only to senders of bulk mail products under the current compensation scheme. The first stage of consultation asked whether recipients of bulk mail should be entitled to delay compensation.

### Responses

5.59 Royal Mail considers Postcomm to have understated the difficulties inherent in extending the bulk mail scheme to recipients of bulk mail items, as it believes it would be impossible, not merely difficult, to identify when an individual mail item was given to Royal Mail. In addition, many bulk mail items bear a date

some days in advance of their posting, giving the appearance of being late when they are not and potentially leading to inappropriate claims.

5.60 ISBA supported providing the recipient of bulk mail items with compensation. The ISBA states that the recipient also suffers inconvenience due to delayed items and that Royal Mail should offer some recompense when it is responsible for such a situation.

5.61 Other respondents agreed that it would not be appropriate for recipients of bulk mail to be able to claim compensation, given the significant administrative difficulties posed.

### Discussion

5.62 Postcomm proposes that recipients of bulk mail should continue to be excluded from claiming compensation for delay. In cases where a recipient is adversely affected by a delayed item of mail they should pursue this directly with the sender.

## **Other issues - Consumers, Estate Agents and Redress Act**

### Responses

5.63 The MUA considers that any decision regarding the removal of the bulk mail compensation scheme should be delayed until the details of the new compulsory redress schemes (as then proposed in the Consumer, Estate Agents and Redress Bill) are determined. The MCF questioned the timing of Postcomm's review of Royal Mail's compensation arrangements and asked whether any changes made during this review could be made redundant once the redress schemes are in place.

### Discussion

5.64 The Department for Business, Enterprise & Regulatory Reform (DBERR) recently published a consultation<sup>40</sup> document on the scope of redress schemes (i.e. the type of customer and the type of complaint that they will be able to investigate); the consultation closed on 27 September 2007. The

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<sup>40</sup> Consumer redress schemes in gas, electricity and postal services: A consultation document, July 2007. DBERR has also published a "Partial Regulatory Impact Assessment for extension of redress schemes to the gas, electricity and postal services sectors" in July 2007.

consultation proposed that domestic and micro-enterprise<sup>41</sup> consumers should be covered by the redress schemes for postal services.

5.65 The consultation also proposed that redress schemes should deal with complaints which:

- have been considered by the service provider, and not resolved to the satisfaction of the consumer;
- relate to the regulated products and services of the service provider unless there is an established alternative route for resolution of the particular class of complaint;
- concern complaints about the way in which the service provider handled the initial complaint;
- concern complaints where there was no evidence to support the complaint, but which were not handled by the service provider in accordance with an established standard or code of practice.

5.66 Postcomm has responded to the consultation<sup>42</sup>. When the government has decided on the scope of redress schemes, Postcomm will consult on the criteria for approving such schemes.

5.67 For complaints/customers within the scope of a redress scheme, a redress scheme operator will consider how a licensee has dealt with a customer's complaint. If the licensee provides a compensation scheme, a redress scheme operator will (if the complaint concerns compensation) consider whether the licensee has followed its own procedures for assessing and paying compensation. The redress scheme operator will not require a licensee to have a compensation scheme, nor prescribe what terms and conditions should be in any compensation scheme that the licensee has developed.

5.68 Postcomm does not consider that its proposals for future compensation arrangements will be affected by, or will have to change, when redress

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<sup>41</sup> A micro-enterprise consumer is an enterprise with a headcount of less than 10, and whose annual turnover and/or balance sheet total does not exceed €2 million.

<sup>42</sup> Postcomm's response to BERR's consultation on scope of redress schemes can be found on our website [www.psc.gov.uk](http://www.psc.gov.uk)

schemes are introduced. If the regulated bulk mail compensation scheme is abolished from 1 April 2009 then all this means for bulk mail customers (if the government decides that they are within the scope of the redress scheme) is that they will not be able to make a complaint about the regulated compensation scheme; they would still be able to complain about any compensation scheme introduced voluntarily by Royal Mail.

## 6. Going Forward

### Developing a unified compensation scheme for loss and damage

- 6.1 In the initial consultation, Postcomm said that it considered that the current schemes dealing with loss and damage were not sufficiently easy for customers to find and understand. This general difficulty is increased because Royal Mail has included in its schemes provisions relating to products that do not form part of the universal service or services provided in connection with it.
- 6.2 The Act only excludes liability in respect of certain claims for loss or damage suffered by any person in connection with the provision of a universal postal service. Therefore, customers not making claims in connection with the provision of a universal postal service may be misled into thinking that the exclusion of liability applies to them by the fact that a product is in a scheme when in fact it does not form part of the universal service or services provided in connection with it,.
- 6.3 Postcomm proposed that loss and damage compensation arrangements should be taken out of the existing schemes and re-written in a separate loss and damage scheme. This would then sit alongside the compensation scheme for delay.

### Responses

- 6.4 Royal Mail recognises that it would be easier for customers if there was a single compensation document written simply and with clarity, setting out compensation arrangements for different types of mail. However, it does not believe that it would be appropriate to achieve this by extracting the compensation elements from the current schemes because there is not a neat split between compensation and other elements of the postal schemes. Royal Mail considers that Postcomm's aims would be better served by allowing the loss, damage and delay compensation arrangements to be set out in a single document aimed at customers, referring to the section 89 postal schemes if customers wish to see what these legal documents say.

- 6.5 Postwatch said that Royal Mail's compensation arrangements should be published in one easy to read leaflet. It wants this leaflet to be delivered to every address in the UK and to be displayed and made available in all Post Offices. It also said that the schemes should be placed in a logical position on Royal Mail's website that can be easily reached from the homepage.
- 6.6 The Mail Users' Association supported the proposal for a single unified compensation scheme. The CWU said that any simplified scheme should have robust controls and not significantly increase the overall level of compensation paid.

### Discussion

- 6.7 It is Postcomm's aim that, following the completion of this review of Royal Mail's compensation arrangements, customers should be better protected because they should be able to understand their rights and entitlements in relation to compensation more easily.
- 6.8 Postcomm agrees with the suggestions from Royal Mail and Postwatch that the compensation arrangements should be published in one easy to read leaflet for customers. Royal Mail will only refer customers to the more detailed schemes where appropriate. However, Postcomm considers that Royal Mail should review the content of the schemes to ensure that only products and services provided as part of or in connection with the universal service are included.
- 6.9 Postcomm will expect Royal Mail to work with Postwatch (or if Postwatch no longer exists, with the National Consumer Council) in reviewing how compensation arrangements are communicated to customers. Postcomm will expect Royal Mail to communicate its compensation arrangements in an easy to read leaflet available in Post Offices. These arrangements should also be placed on the Royal Mail website in a location that is easy to find.

### **Postcomm Direction for a compensation scheme for loss and damage**

- 6.10 The drafting and making of schemes under section 89 of the Postal Services Act 2000 has previously been a matter for Royal Mail. However, following recent modifications to its licence, Postcomm considers that Royal Mail is now

subject to Direction by Postcomm in relation to the making and applications of such schemes in relation to compensation for loss and damage<sup>43</sup>.

- 6.11 In its consultation, Postcomm said it would prefer that any new compensation scheme for loss and damage should be drafted and made by Royal Mail. Postcomm said that it could direct Royal Mail in the making of an appropriate compensation scheme for loss and damage if this became necessary. Postcomm asked for responses to whether it is preferable for a new unified compensation scheme for loss and damage to be developed by Royal Mail.

### Responses

- 6.12 Royal Mail considers that only it is permitted to make schemes under section 89 of the Act. It says that the Government could have granted such a permission to a regulator in the legislation but it chose not to do so. The Government reserved the right for itself to withdraw this power from Royal Mail but it has never utilised it. The content of the section 89 schemes is therefore under the control of Royal Mail. Royal Mail considers that Postcomm would be acting *ultra vires* (outside its remit) if it issued a Direction purporting to give Royal Mail instructions about the content of a scheme. If Postcomm did issue such a Direction it would have no effect upon Royal Mail and the latter would not consider itself bound by the content.
- 6.13 Royal Mail has volunteered to undertake some amendments to the sections of the section 89 schemes which deal with compensation for loss or damage to ensure that the provisions are unified.
- 6.14 However, Royal Mail said that it hoped to be able to agree some changes to its compensation arrangements (consistent with the Act) with Postcomm. It also said that it would be willing to revise the existing four section 89 postal schemes to reflect any changes (although it says that the section 89 schemes would remain separate and must still contain the compensation arrangements set out in each scheme).
- 6.15 The MUA said that it would be preferable for Royal Mail to develop a new unified compensation scheme for loss and damage. The CWU believes it is

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<sup>43</sup> Condition 4, paragraph 19 - Royal Mail's Licence, 25 May 2006

for Royal Mail to best determine compensation arrangements for its customers.

### Discussion

- 6.16 During the negotiations on the current Price Control, Postcomm proposed<sup>44</sup> that adequate compensation should be available to customers who experience loss and damage through Royal Mail's statutory schemes made under section 89 of the Act, by regulating this part of the schemes through Royal Mail's licence. Royal Mail agreed to a modification of its licence that made this possible and the licence was modified on 25 May 2006 to reflect this. However, Royal Mail reserved its position on the legitimacy of the modification at the time. Royal Mail continues to state that the modification is *ultra vires*, i.e. outside Postcomm's remit.
- 6.17 Since Postcomm's November 2006 consultation, it has had discussions with Royal Mail about how the loss and damage compensation arrangements should be amended to make the evidence requirements for a claim and compensation payments more consistent with the compensation scheme for delay. Postcomm has also recommended to Royal Mail that the loss and damage arrangements should be made easier for customers to find and understand.
- 6.18 Royal Mail has been receptive to Postcomm's recommendations and has proposed the loss and damage compensation arrangements as set out in Appendix 1. Royal Mail has also proposed changes to the relevant section 89 schemes as summarised in the Appendix which would give effect to any new arrangements. Postcomm considers that the changes proposed by Royal Mail are acceptable. Therefore, also taking into account the principles of better regulation, Postcomm is minded to agree to Royal Mail's proposed changes rather than issue a Direction in these circumstances.
- 6.19 Postcomm remains satisfied that it has the power, set out in Condition 4 of Royal Mail's licence, to direct Royal Mail in the making and application of any

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<sup>44</sup> Royal Mail Price and Service Quality Review: Final Proposals for Consultation, December 2005

section 89 scheme in relation to the compensation arrangements for loss and damage.

- 6.20 If any agreed changes were not to be fully implemented and/or reflected fully at an operational level, Postcomm would consider whether or not to issue a Direction for the compensation arrangements for loss and damage.

### **Process for changing the compensation scheme for delay**

- 6.21 The options for modifying the compensation scheme for delay are detailed in paragraph 5.51. Postwatch and Royal Mail have not agreed on any amendments to the delay scheme so Royal Mail requires Postcomm's agreement to modify the scheme.
- 6.22 Royal Mail has been receptive to Postcomm's suggestions on the changes required to the compensation scheme for delay during the initial consultation period. As part of its package of proposals for loss, damage and delay compensation Royal Mail is proposing to amend the delay scheme to incorporate the proposals set out in Chapters 2 to 4.
- 6.23 Royal Mail's proposed modified compensation scheme for delay is in Appendix 2. Postcomm is consulting on whether it should formally agree to Royal Mail's proposed modified scheme.

### **High level framework of principles for future compensation arrangements**

- 6.24 In the November 2006 consultation, Postcomm proposed that as a minimum, a high level framework should ensure that Royal Mail's compensation arrangements for loss, damage and delay will:
- be consistent with the Act and its licence;
  - include all universal service products and not exclude any universal service products;
  - be framed to accommodate changes to current products and the introduction of new products and the removal of products (after six months of being discontinued);

- be easy to understand, be readily and freely available to customers using diagrams (e.g. flow charts, tables etc) where appropriate to explain information clearly to customers;
- provide compensation that is consistent with Postcomm's decision following the conclusion of the consultation;
- treat customers in a consistent and non-discriminatory manner;
- include a clear process for changes to the scheme(s), tracking changes made over time and consulting customers before changes are made;
- be consistent with the general principles of consumer protection law where relevant; and
- be consistent with the Plain English campaign which advocates:
  - using short sentences;
  - using active verbs;
  - using lists where appropriate;
  - using positive language;
  - using words appropriate to the reader e.g. avoiding industry jargon; and
  - giving instructions where appropriate.

### Responses

6.25 Postwatch and the MUA were supportive of such a framework. The CWU said that any revised scheme should be easy to understand and fair to all mail users. The ISBA said that the schemes should be transparent and as simple as possible.

6.26 Royal Mail was supportive on most of the principles but raised the following concerns:

- not all products designated as USO services are provided under the terms of a section 89 scheme;

- the relevant licence condition only applies to compensation for lost and damaged postal packets and not to universal service products that are provided as support services, e.g. the redirections service;
- the delay scheme can only be applied to products and services with quality of service targets; and
- Royal Mail does not believe that it (or Postcomm) should or could be required to consult on changes to the section 89 schemes.

### Discussion

6.27 Postcomm has noted Royal Mail's concerns. For the avoidance of doubt:

- the aim of the framework is not to ensure that all universal service products are included in a scheme, but that all those universal service products which are not provided under contract are included in a scheme;
- the loss and damage arrangements proposed in this consultation will only apply to inland postal packets and not to any support services (e.g. Keepsafe, redirections etc.) provided by Royal Mail;
- Postcomm agrees that the delay scheme should apply to products with quality of service targets<sup>45</sup>; and
- Postcomm does have the power to direct Royal Mail in both the making and the application of any scheme under section 89 in relation to compensation for loss of or damage to postal packets. Further, Postcomm can and should consult on such an issue which clearly affects the interests of postal users.

6.28 Postcomm does not propose any changes to the suggested high level framework as detailed in paragraph 6.23. Postcomm will expect Royal Mail to follow the principles in the framework where appropriate in any customer literature on the compensation arrangements for delay and loss and damage. Postcomm will also expect Royal Mail to follow these principles in any future review of the arrangements.

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<sup>45</sup> Royal Mail has agreed as part of its proposals that compensation for delay should also be applicable to Articles for the Blind, Recorded (Signed For) and items redirected under the redirections service even though these items do not have licence targets.

## **Review and modification of compensation arrangements**

- 6.29 Although Postcomm's consultation did not discuss a review and modification process for the future compensation arrangements, Royal Mail did raise it as an issue in its response.
- 6.30 Royal Mail said that it would be appropriate for it to review the compensation arrangements from time to time. It believes that these arrangements must contain a mechanism which would allow these to be reviewed and changed in the event of unforeseen circumstances, such as an unforeseen significant rise in claims or very high level payments endangering Royal Mail's financial position. It also said that there must be a mechanism for suspension of the schemes in the event of widespread industrial action by Royal Mail or its suppliers.
- 6.31 Royal Mail says that it will monitor any new arrangements as follows:
- quarterly monitoring of the compensation schemes for delay and loss and damage, including their practical operation and payment levels; and
  - undertake an intermediate review if it identifies a significant increase in the number of claims or payments under the arrangements.

### Discussion

- 6.32 The compensation scheme for delay already provides for quarterly monitoring, including the practical operation of the scheme and Postcomm considers that Royal Mail's proposed monitoring arrangements regarding compensation for loss and damage are sensible. Postcomm would support having the review process referred to in paragraph 6.30 as this will also ensure that the compensation arrangements are assessed against the changing needs of postal users in a developing postal market.
- 6.33 Postcomm does not intend to change its policy regarding industrial action. Postcomm considers industrial action to be within the control of Royal Mail management and would expect Royal Mail to take steps to minimise any disruption and also to properly compensate postal users whose services have been affected by any disruption. In cases of major industrial action, Royal Mail can choose to seal post boxes so that no items can enter the network.

- 6.34 Postcomm retains the ability to use its discretion to suspend or modify Royal Mail's obligation to pay compensation pursuant to the delay scheme following an application from Royal Mail, and after consultation with Postwatch. If Royal Mail had genuine concerns about any future activities which could have a significant impact on retail compensation payments for delay because of industrial action, then Postcomm would expect it to request for an exemption similar to that presented earlier this year for the exemption from bulk compensation.
- 6.35 Postcomm proposes that a full review of the arrangements should be undertaken by Royal Mail twelve months after they have come into effect. Further, provisions relating to the modification and review of the delay scheme are provided for in Condition 4 of Royal Mail's licence<sup>46</sup>.

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<sup>46</sup> Licence Condition 4, paragraphs 24 to 26

**APPENDIX 1 – Royal Mail’s proposed compensation arrangements for loss and damage and summary of changes to the Section 89 schemes**



# Royal Mail Proposed Arrangements for Loss and Damage Compensation

November 2007

## **(A) COMPENSATION ARRANGEMENTS FOR LOSS AND DAMAGE**

In conjunction with the proposed changes to the retail delay scheme Royal Mail proposes the following arrangements to deal with loss and damage compensation, where appropriate by way of amendment to The Successor Postal Services Company Inland Letter Post Scheme and the Successor Postal Services Company Inland Parcel Post Scheme, Schemes made under s.89 of the Postal Services Act 2000, and in its customer literature or website.

### ***Nature and extent of compensation payments for loss and damage***

1. Compensation for loss or damage is to be paid under paragraph 6 in relation to retail products and services as set out in paragraph 2 below.
2. The compensation payments for loss and damage will apply only to items posted with Royal Mail in the UK for delivery by Royal Mail in the UK using the following products:
  - a. 1<sup>st</sup> class stamped and metered mail, including items sent using Smartstamp® or Online Postage;
  - b. 2<sup>nd</sup> class stamped and metered mail, including items sent using Smartstamp® or Online Postage;
  - c. Standard parcels;
  - d. 1<sup>st</sup> and 2<sup>nd</sup> class Recorded Signed for™ mail when used in conjunction with products a or b above;
  - e. Articles for the Blind, and
  - f. Special Delivery™ Next Day (not posted on account).
3. Compensation for damage may be payable if an item in a postal packet has suffered a degree of harm that reasonably impairs the material function or contents of the item, solely as a result of its transmission through the post, and excluding liability for any pre-existing damage.
4. Compensation for loss will not be considered for an item that Royal Mail has not delivered or attempted to deliver until after:

- 15 working days for items other than Special Delivery™ Next Day (not posted on account), or
- 10 working days for Special Delivery™ Next Day (not posted on account)

have elapsed from the due date of delivery, unless there is evidence to the contrary to demonstrate that the item has not been lost. Where an item is safely delivered after the 15 working days (or 10 working days in the case of Special Delivery) the customer will be entitled to claim compensation for delay but not loss.

5. In respect of claims for the loss of postal packets conveyed to addresses designated by Postcomm under paragraph 4 of Condition 2 of the Licence as exempted from daily delivery obligations, the assessment of lateness in paragraph 4 shall apply on a case by case basis.
6. The nature and extent of the compensation to be paid for loss of, or damage to eligible mail items are set out in the following tables.

<b>Table 1</b> All retail services other than Special Delivery™ Next Day not posted on account and Standard Parcels with enhanced compensation	Loss	Damage and part loss
Item has no intrinsic value	Postage refund (minimum 6 x 1 <sup>st</sup> class letter stamps)	6 x 1 <sup>st</sup> class letter stamps
Item has intrinsic value (with basic evidence only)	Postage refund (minimum 6 x 1 <sup>st</sup> class letter stamps)	6 x 1 <sup>st</sup> class letter stamps
Item has intrinsic value (with additional evidence)	Postage refund, plus compensation on basis of the customer's actual loss, This compensation is subject to the maximum payable being the lower of the market value of the item and statutory maximum of 100 x 1 <sup>st</sup> class letter stamp.	Postage refund, plus compensation on basis of the customer's actual loss. This compensation is subject to the maximum payable being the lower of the market value of the item and statutory maximum of 100 x 1 <sup>st</sup> class letter stamp.

<b>Table 2</b> Standard parcels with enhanced compensation	Loss	Damage and part loss
Item has no intrinsic value	Postage refund (minimum 6 x 1 <sup>st</sup> class letter stamps)	6 x 1 <sup>st</sup> class letter stamps
Item has intrinsic value (with basic evidence only)	Postage refund (minimum 6 x 1 <sup>st</sup> class letter stamps)	6 x 1 <sup>st</sup> class letter stamps
Item has intrinsic value (with additional evidence)	Postage refund plus compensation on basis of the customer's actual loss. This compensation is subject to the maximum payable being the lower of the market value of the item and the maximum level of compensation purchased	Postage refund plus compensation on basis of the customer's actual loss. This compensation is subject to the maximum payable being the lower of the market value of the item and the maximum level of compensation purchased

<b>Table 3</b> Special Delivery™ Next Day (not posted on account)	Loss	Damage and part loss
All items (with additional evidence)	Fee refund plus compensation on basis of the customer's actual loss. This compensation is subject to the maximum payable being the lower of the market value of the item and the maximum level of compensation purchased	Fee refund plus compensation on basis of the customer's actual loss. This compensation is subject to the maximum payable being the lower of the market value of the item and the maximum level of compensation purchased

Notes –

- (i) Where an item is lost or damaged beyond repair then actual loss is the amount it cost the customer to acquire, purchase or manufacture the item subject to condition, age and depreciation. Where an item is damaged it is the cost of repair. No additional payment will be made for the reduced value of the repaired item. If a customer has used one of the services set out in table 1 above, then any claim for compensation for actual loss will be paid up to the market value or the statutory maximum which ever is the smaller amount. Where special delivery next day or standard parcel

with enhanced compensation has been used then any compensation for actual loss will be paid up to the smaller of market value or the compensation purchased by the sender.

- (ii) When assessing the market value of the content of an item the value of any message must be ignored (e.g. the market value of a cheque is not its face value)
- (iii) All claims must supply as a minimum the following “basic evidence”
  - the names and addresses of the sender, addressee and claimant,
  - the Royal Mail product used,
  - the postage paid and method of postage ,e.g. stamps, franking impression, Smartstamp®
  - the place of posting,
  - the date of posting,
  - the basis for asserting the posting details and product used (such as date of postmark, certificate of posting (if available) and for Special Delivery™ Next Day, Recorded Signed for™ and Standard Parcels with enhanced compensation, the product documentation)
  - a description of the contents,
  - the date of delivery (for damage and part loss claims only), and
  - a description of the packaging and condition of the mail item itself (for damage and part loss claims only).
  - Claimants must retain all the packaging and contents of damaged items or items subject to part loss as Royal Mail may need to inspect them. If they are not retained compensation may not be paid.
- (iv) Claims for items with an intrinsic value should all be made on Royal Mail's current loss and damage claim form. The claim form needs to be signed and dated by the claimant and supported by “additional evidence” (evidence of posting and evidence of value) to corroborate the amount claimed for actual loss. If only basic

evidence can be provided then only postage refund or stamps can be considered.

- (v) Evidence of the actual loss must be provided to enable Royal Mail to determine the value of the contents of a packet. Such evidence might be original receipts, bank or credit card statements, details of age, catalogue price, paypal record, invoices, manufacturing costs, auctioneers valuation, and repair costs in the case of damage claims. This list is not exhaustive and is for illustrative purposes only.
  - (vi) Royal Mail reserves the right to inspect the item and packaging and/or to request additional documentation and/or information from the claimant, sender or recipient to protect against unwarranted or duplicate claims. This includes, but is not limited to, a declaration of non-receipt (or proof of non receipt in appropriate cases).
  - (vii) Evidence must be provided that the part loss or damage sustained by the item is consistent with the damage to the envelope or to the external packaging or the internal wrappings.
7. The sender or the recipient may make a claim for loss of or damage to an item. However Royal Mail will only pay compensation once in respect of any item. In the event that both the sender and the recipient of a postal packet makes a claim for the same item, then that right of claim shall lie only with the sender, unless compensation has already been paid to the recipient.

### ***Exclusions***

8. Royal Mail does not accept liability, and will not pay compensation for a lost or damaged item in the following circumstances –
- a. where the claim relates to an item posted with, or handled by another postal operator or third party;
  - b. where the loss or damage has not arisen due to any wrongful act done, or any neglect or default committed by an officer, servant or agent of Royal Mail while performing or purporting to

- perform his functions as such in relation to the receipt, carriage, delivery or other dealing with the item;
- c. where the loss or damage has arisen due to the posting or receiving customer's own act or omission; including but not confined to a failure to collect mail held for customer collection within the required timescales,
  - d. where the loss or damage has arisen due to circumstances outside the control of Royal Mail including exceptional severe weather conditions, acts of terrorism and vandalism and acts of third parties with whom Royal Mail has no contractual relationship;
  - e. where loss or damage is due to a latent or inherent defect, natural deterioration; or (for damage or part loss) where there is no material damage to the item;
  - f. where all of the conditions that apply to the service used have not been complied with, including but not confined to;
    - where an item does not comply with all the provisions set out in the Scheme and those provisions relating to specific services detailed in product licences, terms and conditions, application forms and similar product documentation;
    - where a Special Delivery™ Next Day (not posted on account) item does not adhere to the terms and conditions for that service;
  - g. where the item is not fully and correctly addressed in a manner that includes all the elements of the postal address (including the full postcode) written clearly on the front or on a label securely attached to the front of the cover or envelope, or the address is illegible;
  - h. where the item is not in a suitable and reasonably strong cover or envelope appropriate to its contents that (with the exception of Articles for the Blind) is sealed or fastened securely;
  - i. where the item is not packaged in accordance with the requirements of the relevant post schemes, which are described

on Royal Mail's website and customer literature, including but not confined to;

- where anything enclosed in the letter is not well protected against damage;
  - where a breakable item has not been packed in a strong container with enough packaging material to protect the item against pressure and knocks, and where the item has not been marked with the words "FRAGILE HANDLE WITH CARE" in capital letters on the cover or envelope above the address,
  - where an item that may be damaged by bending is not packed in a strong container that will prevent the item from being bent , and marked with the words "DO NOT BEND" on the cover or envelope above the address;
  - where a letter contains an item that is likely to perish or decay, the letter is not marked with the word 'PERISHABLE' in capital letters on the cover or envelope above the address
  - where restricted items are not packed in accordance with further published packaging requirements
  - where the packaging does not comply with any other information published by the Post Office on packing.
- j. where the item contains valuables (i.e. money and jewellery) unless posted using an appropriate Special Delivery™ service within the terms of this scheme;
- k. for standard parcels, where damage is to glass or ceramics
- l. where Royal Mail has destroyed, dealt with or disposed of an item at its discretion under any section of the relevant schemes made under section 89 of the Postal Services Act or in accordance with other legislation;
- m. where the item is one of the following:
- an undeliverable or return to sender item;
  - an item containing anything prohibited by law or any item listed as prohibited in the relevant Inland Postal Schemes;

- n. where a postal packet has been forwarded from the original delivery address stated on the item other than by Royal Mail under its redirection service,
- o. where an item has been forwarded or redirected to an address in the Channel Islands or the Isle of Man.

9. Definitions used

“actual loss”	Where an item is lost or damaged beyond repair then it is the amount it cost the customer to acquire, purchase or manufacture the item subject to adjustment to take account of condition, age and depreciation Where an item is damaged it is the cost of repair. No additional payment will be made for the reduced value of the repaired item.
“damage”	If an item in a postal packet has suffered a degree of harm that reasonably impairs the material function or contents of the item,
“due date”	means – (a) for first class services, the next working day following the day of posting; (b) for second class services and the standard parcel service the third working day following the date of posting; and (c) for Special Delivery™ Next Day (not posted on account) the guaranteed date provided in the delivery specification
“evidence of posting”	Includes: <ul style="list-style-type: none"> <li>• The item with envelope or packaging, showing the postage paid;</li> <li>• Original Certificate of posting (provided automatically for Recorded Signed for™ items and Special Delivery™ Next Day (not posted on account) and available on request at Post Offices for other items);</li> <li>• Original Horizon certificate of posting;</li> </ul>

	<ul style="list-style-type: none"> <li>Original Smartstamp® or on-line postage certificate of posting validated at a Post Office.</li> </ul>
“first class services”	means those services which are listed as Retail first class in the table at Note 1 of the Annex to Condition 4 of the Licence, the Articles for the Blind service and the first class Recorded Signed for™ service when used in conjunction with the Retail first class services
“the Licence”	means the licence granted to Royal Mail under section 11 of the Act on 23 March 2001 as amended on 1 April 2003, 2 November 2005 and 25 May 2006.
“loss”	a postal packet shall be deemed as lost if Royal Mail has not delivered it at the place to which it is addressed by the end of the fifteenth working day (or the tenth working day for Special Delivery™ Next Day (not posted on account)) after its Due date of delivery, unless there is evidence to the contrary to demonstrate that the item has not been lost.
part loss	Where a postal packet is received and some or part of the content is missing.
“postal address”	means for any premises the address, including the postcode, maintained by Royal Mail from time to time as corresponding to those premises in the Postcode Address File,
Special Delivery™ Next Day (not posted on account)	means, Special Delivery™ (Next Day) other than when sold to users having an account with Royal Mail buying the service using their account, i.e. services listed as Special Delivery™ (Next Day) in the table at Note 1 of the Annex to Condition 4 of the Licence
“second class services”	means those services which are listed as Retail second class in the table at Note 1 of the Annex to Condition 4 of the Licence and the second class Recorded Signed for™ service when used in conjunction with the Retail second class services
“working days”	For Special Delivery™ Next Day (not posted on account),

	<p>any day which is not a Saturday, a Sunday or a public holiday, unless Saturday guarantee has been purchased, in which case Saturday is a working day.</p> <p>For other retail services in paragraph 2, any day which is not a Sunday or a public holiday</p>
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10. Payments specified in Tables 1 and 2 in paragraph 5 will be minimum payments in relation to lost or damaged items and Royal Mail may, at its discretion in exceptional circumstances, make higher payments as befits the claim, up to the statutory maximum or level of compensation purchased for the service used.
11. Royal Mail will advise the claimant of its decision with reasons within 30 calendar days of the receipt of the claim together with all necessary supporting documents and information.
12. Compensation not assessed by reference to numbers of stamps shall be payable by cheque or Giro cheque at the discretion of Royal Mail.
13. Where Royal Mail rejects a claim for compensation it shall advise the claimant of the appeals process available to them.

## **(B) SECTION 89 SCHEME CHANGES**

Royal Mail is proposing to amend the Inland Letter Post Scheme and Inland Parcel Post Scheme under section 89 of the Postal Services Act 2000 on a voluntary basis to include the agreement which has been reached with Postcomm arising out of the consultation on compensation.

Royal Mail will make the following principal changes to the Inland Letter Post Scheme (ILS) to deploy the arrangements above<sup>47</sup>:

- Packaging requirements will be grouped together in paragraph 9.2
- A reference will be added in section 9 to packaging requirements for restricted items and other requirements published in Royal Mail's customer literature
- Section 50 paragraph 1 will be amended to include exclusions for
  - force majeure,
  - return to sender mail
  - forwarded mail,
  - latent or inherent defect and natural deterioration;
  - damage which is not material or pre-existing damage
- Section 50 paragraph 1 will be amended to remove the exclusion for Articles for the Blind.
- Paragraphs will be added to Section 50 to cover further exclusions for:
  - items posted with or handled by other postal operators or third parties, and
  - for loss or damage caused by the customer's own act or omission.
- Paragraph 51.2 will be amended to include refund of postage for loss of or damage to the retail services included in the proposed arrangements.
- Paragraphs 51.2 and 52.2 will be amended to clarify that compensation is assessed in relation to the actual loss.

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<sup>47</sup> Paragraph numbers may be revised in the amended Scheme

- A new paragraph will be added to section 51 to exclude liability where there is no material damage to the envelope or internal wrappings which is consistent with the damage sustained by the item.
- Paragraph 51.4.1 will be amended to refer to evidence of posting rather than a certificate of posting.
- A new subparagraph will be added to section 51 paragraph 4 to clarify the requirement to comply with all the product terms and conditions.
- A new paragraph will be added to section 51 which lists the retail services covered by the compensation arrangements in Schedule 3.
- Definitions for actual loss, damage, due date, evidence of posting, intrinsic value, IPS, Licence, loss, part loss and postal address will be added to Schedule 2.
- A new Schedule 3 will be added to set out the proposed arrangements themselves. It is anticipated that this will cover the information in paragraphs 1 to 7 of the proposals.

Royal Mail will make the following principal changes to the Inland Parcel Post Scheme (IPS) to deploy the arrangements above<sup>48</sup>:

- Definitions for actual loss, cover, damage, due date, evidence of posting, ILS, intrinsic value, Licence, loss, mark, market value, part loss, postal address, Smartstamp™, undeliverable, unpaid and working day will be added to section 3. The definitions of money and valuables will be amended to reflect the ILS where appropriate.
- The prohibitions and restrictions at section 7 will be revised to reflect the ILS where appropriate.
- The packaging instructions in other parts of the Scheme, including Schedules 4 and 5, will be grouped together at section 9, which will also incorporate the requirements in the ILS plus packaging requirements for restricted items and other requirements published in Royal Mail's customer literature

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<sup>48</sup> Paragraph numbers may be revised in the amended Scheme

- The addressing instructions in other parts of the scheme, including Schedules 4 and 5, will be grouped together at section 10, which will also incorporate the requirements in the ILS.
- Section 24 will be amended to incorporate paragraph 50.2 of the ILS.
- The restrictions on compensation in part 3 of Schedule 4 and part 2 of Schedule 5 will be incorporated into the main body of the Scheme at section 24.
- A new paragraph will be added to section 24 to exclude liability where there is no material damage to the envelope or internal wrappings which is consistent with the damage sustained by the item.
- Section 24 will be further amended to include exclusions for
  - mail forwarded or redirected to the Channel Islands or Isle of Man (as for paragraph 50.1.1 of the ILS)
  - undeliverable mail
  - return to sender mail
  - forwarded mail,
  - damage which is not material or pre-existing damage
  - force majeure,
  - items posted with or handled by other postal operators or third parties, and
  - loss or damage caused by the customer's own act or omission.
- Exclusions for prohibited and restricted items moved from sections 25 and 26 to section 24.
- Section 24 will be modified to clarify the requirement to comply with all the product terms and conditions in addition to Scheme terms and conditions.
- Paragraph 25.4 and 26.2 will be amended to include refund of postage for loss of or damage to the retail services included in the proposed arrangements.
- Paragraph 25.4 will be amended to clarify that compensation for a compensation fee parcel is assessed in relation to the actual loss, capped by market value and the maximum level of compensation purchased.

- Paragraph 26.2 will be amended to clarify that compensation for other parcels is assessed in relation to the actual loss, capped by market value and the statutory maximum.
- Part 2 paragraph 1 of Schedule 4 will be moved to Section 25 and be amended to refer to evidence of posting rather than a certificate of posting.
- Part 1 paragraph 1 of Schedule 5 will be moved to Section 26 and amended to refer to evidence of posting rather than a certificate of posting.
- A new paragraph will be added to each of sections 25 and 26 which lists the retail services covered by the compensation arrangements in Schedule 8.
- Requirements for packaging and addressing in part 2 of Schedule 4 and part 1 of Schedule 5 will be moved to paragraphs 9 and 10 as described above. The remaining requirements for compensation in parts 2 and 3 of Schedule 4 and parts 1 and 2 of Schedule 5 will be incorporated into the main body of the Scheme at paragraphs 24, 25 and 26. Schedule 5 and parts 2 and 3 of Schedule 4 will be deleted.
- A new Schedule 8 will be added to set out the proposed arrangements themselves. It is anticipated that this will cover the information in paragraphs 1 to 7 of the proposals.

The changes listed to the Inland letter Post Scheme and Inland Parcel Post Scheme above are to deploy the loss and damage compensation proposals. Royal Mail may make other changes to the Schemes, for example to clarify current practice, to tidy up the wording or to reflect changes to products and services.

**APPENDIX 2 – Royal Mail’s proposed modified compensation scheme for delay**

**STANDARDS OF SERVICE COMPENSATION SCHEME OF ROYAL MAIL GROUP LTD (as amended with effect from [date 2008])**

***Compensation to be provided by Royal Mail***

1. Compensation shall be paid by Royal Mail Group Ltd (“Royal Mail”) in accordance with this Scheme to users of postal services provided by Royal Mail affected by failure by Royal Mail to meet the quality standards applicable to the conveyance of postal packets sent by services referred to in the Scheme.
2. This Scheme is intended to ensure that users of postal services receive compensation for delay in the conveyance of postal packets by Royal Mail.

***Retail services – Nature and extent of compensation payments***

3. Subject to paragraph 7, the delays for which compensation is to be paid under paragraphs 3 to 12 of this Scheme in relation to retail services and the nature and extent of the compensation to be paid for such delays are set out in the following table.

Number of working days after item was posted <sup>49</sup>		Stamped and metered or Recorded (Signed for) 1st class mail and Articles for the Blind (with basic or additional evidence <sup>50</sup> )	Special Delivery Next Day (not posted on account)	Stamped and metered or Recorded (Signed for) 2nd class mail (with basic or additional evidence <sup>50</sup> )	Parcels (with basic or additional evidence)	Stamped and metered or Recorded (Signed for) 1st class Mail and Articles for the Blind redirected using Royal Mail’s redirection service (with basic or additional evidence <sup>50</sup> )	Stamped and metered or Recorded (Signed for) 2 <sup>nd</sup> class mail items and/or parcels redirected using Royal Mail’s redirection service (with basic or additional evidence <sup>50</sup> )
(a)	(b)						
1	2	Due	Due	0.00	0.00	Originally due	0.00
2	3	0.00	£5	0.00	0.00	0.00	0.00
3	4	0.00		Due	Due	0.00	Originally due
4	5	6 x 1 <sup>st</sup> class stamps <sup>50</sup>		0.00	0.00	0.00	0.00
5	6			0.00	0.00	0.00	0.00
6	7			6 x 1 <sup>st</sup>	6 x 1 <sup>st</sup> class	0.00	0.00

<sup>49</sup> For the Special Delivery Next Day (not posted on account) services, £5 will be payable if the item was delivered more than 24 hours (excluding non-working days) after the guaranteed time of delivery, or £10 will be payable if the item was delivered seven or more working days after the guaranteed time of delivery.

<sup>50</sup> For circumstances where Additional evidence may be required, see paragraphs 8(a) and (b)

				class stamps <sup>50</sup>	stamps		
7	8					6 x 1 <sup>st</sup> class stamps <sup>50</sup>	0.00
8	9		£10				0.00
9	10					6 x 1 <sup>st</sup> class stamps <sup>50</sup>	

Notes –

I The numbers in column (a) apply –

(a) at all times to Special Delivery Next Day (not posted on account) services, and

(b) at all times apart from when the Due date falls in the Christmas and New Year period to all other services referred to in the table.

II The numbers in column (b) apply when the Due date falls in the Christmas and New Year period to all services referred to in the table except Special Delivery (Next Day) not posted on account.

III The Due date and delivery time for Special Delivery Next Day (not posted on account) services are specified in the terms and conditions for this product and will not always provide for next day delivery. When compensation is due will, in some cases therefore, differ according to the service specification. For Special Delivery Next Day (not posted on account) services with a delivery specification of one or more days after the next day, the figures in column (a) apply with the addition of that number of days.

IV “Basic evidence” means the information provided by the claimant at the time of first bringing the complaint to the attention of Royal Mail and where contact is by telephone includes responses by the claimant to reasonable telephone questions asked by Royal Mail which may include –

(c) the names and addresses of the sender, addressee and claimant,

(d) the place of posting,

(e) the date of posting,

(f) the basis for asserting that date (such as date of postmark, date of letter, certificate of posting (if available) and, for Special Delivery Next Day (not posted on account), service documentation),

(g) the date of delivery,

(h) the basis for asserting that date,

(i) the method of postage, and

(j) the indication (if any) of the amount of postage.

V “Additional evidence” –

(k) means a statement in writing containing the information in paragraphs (a) to (h) in the note above on Basic evidence and a declaration by the claimant acknowledging that the making of a false statement may lead to prosecution, accompanied by the envelope of the letter, or the part of the wrapping that includes the address and the postage stamp or mark of the parcel, in respect of which the claim is made, and

(l) may include an explanation, with such supporting information as is reasonably available, of circumstances that have resulted in the delay causing particular loss, distress or inconvenience to the claimant.

***Retail services – procedures for payment***

4. A claim in relation to delay to a postal packet conveyed under a retail service shall not be made after the expiry of the earlier of –
- a) one month of receipt, or
  - b) three months from the posting

of the postal packet that is subject to the delay giving rise to the claim.

5. Subject to paragraph 6, the persons who may claim compensation are –
- a) the sender of a postal packet, and
  - b) the addressee of the postal packet.
6. In the event that both the sender and the recipient of a postal packet make a claim under this scheme in respect of that postal packet, then that right of claim shall lie only with the sender, unless compensation has already been paid to the recipient.
7. In relation to the late arrival of postal packets conveyed to those addresses designated by Postcomm under paragraph 4 of Condition 2 of the Licence as exempted from a daily delivery obligation, the scheme shall apply on a case by case basis.
8. Royal Mail may require claims to be made in accordance with such reasonable procedures as, with the approval of Postcomm, it determines. These procedures may include –
- a) arrangements for ensuring that unwarranted claims are not made, which may include a requirement that a second claim by a claimant or in relation to a particular address within a period of 90 calendar days shall be supported by Additional evidence and by further information,
  - b) arrangements for ensuring that compensation is not paid more than once in respect of the conveyance of any postal packet,

- c) arrangements under which decisions made by Royal Mail in relation to compensation that users find unsatisfactory may be subject to review and appeal within Royal Mail, and
  - d) arrangements to ensure that those disputes that are not satisfied under Royal Mail procedures within 90 calendar days of receipt of a claim may be referred to Postwatch to make representations on behalf of the claimant.
9. Payments specified in the table in paragraph 3 will be minimum payments in relation to delayed items and Royal Mail may, at its discretion, pay higher levels of compensation as befits the claim.
10. Where Royal Mail accepts that compensation is payable it will within 30 calendar days of the day of acceptance:
- a) notify the claimant of acceptance , and
  - b) pay compensation.
11. Compensation not assessed by reference to numbers of stamps shall be payable by cheque or Giro cheque at the discretion of Royal Mail.
12. Where Royal Mail rejects a claim for compensation it shall advise the claimant of the rejection within 30 calendar days of the making of the claim and the receipt of all necessary supporting documents and information, advising the claimant of the reason for the rejection and that the matter may be referred by him or her to Postwatch to make representations on behalf of the claimant.

***Retail services – exclusions***

13. Royal Mail shall be under no obligation to provide compensation –
- a) where the postal packet is not fully and correctly addressed in a manner which includes all the elements of the postal address (including the full postcode ) written clearly on the front or on a label securely attached to the front of the cover or envelope, or the address is illegible,
  - b) where the event giving rise to the claim was caused by circumstances outside Royal Mail’s control, including exceptionally severe weather conditions, acts of terrorism and vandalism and acts of third parties with whom Royal Mail has no contractual relationship, but excluding the failure of the employees, sub-contractors or agents of Royal Mail, to provide services to or for Royal Mail as a result of industrial action by them,
  - c) where a postal packet is posted in a manner that does not comply with the provisions of the scheme relevant to its conveyance under section 89 of the Act, or is identified as containing prohibited contents as defined in the provisions of that scheme;
  - d) where a postal packet is undeliverable and/or has been returned to sender;

- e) where alternative delivery arrangements have been agreed with the customer, including, for example, through the use of services such as Safelace, PO Box delivery, Mail Collect and Post Restante, and the delay is caused by the customer or by the nature of the arrangements,
- f) where a postal packet has been forwarded from the delivery address stated on the item other than by Royal Mail under its redirection service,;
- g) where postage payable for the postal packet in question is unpaid or underpaid,
- h) where the claim relates to a postal packet posted with or handled by another postal operator,
- i) where the delay has arisen through the posting or receiving customer's own act or omission, or
- j) in such other circumstances as Postcomm, after consulting with Postwatch, may agree.

***Bulk mail services – calculation and payment of compensation***

14. Compensation in accordance with paragraphs 14 to 17 of this scheme shall be payable by Royal Mail to senders of postal packets using the bulk mail services in respect of failure by Royal Mail to achieve the required standards of service for Grouping 3 or Grouping 4 or Grouping 5 in any of the target years as set out in the Annex to Condition 4 of the Licence, by 1% or more.
15. The level of compensation to be paid to each user of each of the bulk mail services shall be calculated at the rate of 0.1% of their annual expenditure on that service in the year in question for each 0.1% failure by Royal Mail to achieve the standard for the relevant service grouping in that year, provided that compensation for any user for any service shall not exceed 5% of the user's expenditure on that service in that year.
16. Any expenditure on mailings that were not compliant with the terms and conditions of the contract for the relevant service shall be excluded from the annual expenditure used to calculate compensation payments.
17. Compensation payable for delays to bulk mail services shall be announced by Royal Mail no later than the end of a three month period after the date at which final adjusted and audited quality of service performance figures for the year to which the minimum target percentages apply are accepted by Postcomm.
18. Payment will be made by way of credit against future expenditure or, if requested by the user, by cheque and arrangements for payment shall be made (and cheques issued if required) within one month of the announcement of compensation payments.

19. Decisions made by Royal Mail in relation to compensation for bulk mail services that users find unsatisfactory shall be reviewed within Royal Mail and if a dispute is not satisfied under Royal Mail's procedures within 90 calendar days of receipt of a claim may be referred to Postwatch to make representations on behalf of the claimant.

***Bulk services – exclusions***

20. Royal Mail shall be under no obligation to provide compensation –

(a) where the event giving rise to the claim was caused by circumstances outside Royal Mail's control, including exceptionally severe weather conditions, acts of terrorism and vandalism and acts of third parties with whom Royal Mail has no contractual relationship, but excluding the failure of the employees, sub-contractors or agents of Royal Mail, to provide services to or for Royal Mail as a result of industrial action by them,

(b) where a sender is in default of credit terms, without reasonable excuse,

(c) in relation to postal packets posted with another postal operator, or

(d) in such other circumstances as Postcomm, after consulting with Postwatch, may agree.

***General provisions for retail and bulk services***

***Suspension or modification of scheme***

21. Royal Mail may at any time request Postcomm to suspend or modify its obligations to provide compensation in relation to retail and bulk services to such extent, in such circumstances and for such duration as Postcomm, after consultation with Postwatch, may determine.

22. Where Royal Mail has requested such a suspension, it may suspend payments to claimants or customers posting bulk mail from the time its formal request for the scheme to be suspended or modified is received by Postcomm, until Postcomm's decision. Royal Mail is required to keep details of such claims and to honour them in the event that Postcomm does not accept the request for suspension or modification.

***Commencement and review***

23. This amended Scheme shall apply with effect from [date 2008].

24. This Scheme shall be subject to –

(a) quarterly monitoring, including of its practical operation,

(b) a full review of each part of the scheme 12 months after it has come into effect, and

(c) further modification and review as provided in Condition 4 of Royal Mail's Licence.

**Interpretation**

25. In this Scheme, unless the context requires otherwise –

- (a) terms and expressions that are defined in the Act shall have the same meaning as in the Act,
- (b) terms or expressions that are defined in Royal Mail’s Licence shall have the same meaning as in the Licence, and
- (c) for further clarification in relation to this Scheme, terms in the left hand column in the table below have the meaning set out adjacent to them in the right hand column in the table.

“bulk mail services”	means those services listed as Bulk 1, Bulk 2 and Bulk 3 services in the table at Note 1 of the Annex to Condition 4 of the Licence which include Mailsort, Presstream, PPI and Response Services.
“Christmas and New Year period”	means the period commencing on the first Monday in December in any year and ending at the start of the working day after the immediately following New Year public holiday or in Scotland at the start of the working day after the immediately following Scottish New Year public holiday.
“delay”	a postal packet shall be regarded as delayed if Royal Mail has not attempted to deliver it at the place to which it is addressed (or, where relevant, the redirected address) by the end of – (a) the Due date in relation to Special Delivery (Next Day) not posted on account; (b) the second working day after the Due date in relation to retail services ; and (c) the fifth working day after the original Due date in relation to retail services where a postal packet is redirected using Royal Mail’s redirection service,
“Due date”	means – (a) for first class services the next working day following the day of posting, (b) for Special Delivery (Next Day) services not posted on account the date in the delivery specification, (c) for second class services and the standard parcel service the third working day following the date of posting, and  or, in the case of a day referred to in paragraphs (a) or (c) falling in a Christmas and New Year period, the next working day following that day, or the second working day following that day in the case of a postal packet that is redirected using Royal Mail’s redirection service.
“first class services”	means those services which are listed as Retail first class in the table at Note 1 of the Annex to Condition 4 of the Licence, the first class Recorded Signed For service (when used in conjunction with the Retail first class services), and the Articles for the Blind service.

“the Licence”	means the licence granted to Royal Mail under section 11 of the Act on 23 March 2001 as amended on 1 April 2003, 2 November 2005 and 25 May 2006.
“target percentage”	means for each service grouping for each year the Standard percentage set out in the Annex to Condition 4 of the Licence,
“original due date”	The date when the postal packet would be due at the address on the item but for a redirection being in place.
“postal address”	means for any premises the address, including the postcode, maintained by Royal Mail from time to time as corresponding to those premises in the Postcode Address File,
“redirection service”	means the service whereby an addressee may on application to Royal Mail and payment of a fee have a letter redirected from one specified address within the UK to another address within the UK.
“retail services”	means those services which are listed as Retail first class, Retail second class, Standard parcel and Special Delivery Next Day (i.e. Special Delivery Next Day (not posted on account)) in the table at Note 1 of the Annex to Condition 4 of the Licence , Recorded Signed For service (when used in conjunction with the Retail first and second class services), and the Articles for the Blind service,
“second class services”	means those services which are listed as Retail second class, in the table at Note 1 of the Annex to Condition 4 of the Licence, and the second class Recorded Signed For service (when used in conjunction with the Retail second class services),
Special Delivery Next Day (not posted on account)	means Special Delivery (Next Day) other than when sold to users having an account and buying the service using their account, i.e. services listed as Special Delivery (Next Day) in the table at Note 1 of the Annex to Condition 4 of the Licence,
“year”	Means a period of twelve months ending on 31 <sup>st</sup> March.