



FUTURE REGULATION – USO REFORM IN THE UK

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A long and proud history dating back to 1516



Long and proud history

- Date back to 1516
- Home of the Penny Black
- Privatised in 2014

Our present

- Committed to the one-price-goes-anywhere service to every address in the country
- Recent years have been challenging
- In our December trading update, we announced an operating lost of £295m
- We continue to lose £1m a day. We must change
- RM has only made a commercial rate of return twice since privatisation*

Our future

- Undergoing a major transformation process
- More is needed to put business back on track



* Based on Ofcom's definition that 5% to 10% EBIT margin range is a first order indicator of a reasonable commercial rate of return for the Reported Business.

Ensuring a postal service fit for the digital age



Letters per year

20bn

2004-05

8bn

last financial year

4bn

next decade

On average, 2 letters to every door, every day

Less than 1 letter to every door, every day

Less than 1 letter to every door, every other day

Parcel volumes per year

per year



10%

An outdated USO constrains our ability to meet customer needs

Formal request to government to reduce the number of letter delivery days from 6 to 5

RM legally required to provide a service that customers no longer need

- 97% of people said a 5-day letter and 6 day parcel service would fully or mostly meet their needs compared to 97% of consumers who say current service meets their needs (Ofcom research)*
- Ofcom sees USO as a safety net in the UK with a focus on “basic” services**

Outdated USO imposes a material constraint on us ...

- Our modelling shows material benefits of moving to 5 days
- Separately, Ofcom estimated net cost savings of £175-225m of moving to 5 days in its 2020 User Needs Review.

And limits our ability to invest in what customers want

- Invest and improve in 7-day a week parcel delivery service



*Ofcom 2020 User Needs Review; **Ofcom 2022 Review of Postal Regulation – para 5.11

Current USO requirements in the UK



Delivery frequency	<ul style="list-style-type: none">• Letters 6 days a week• Parcels 5 days a week
Delivery Speed	<ul style="list-style-type: none">• First class D+1• Second class D+3
Geographic split	<ul style="list-style-type: none">• “Universal” level of service in all areas
Pick up and delivery point	<ul style="list-style-type: none">• Pick up from all post boxes, deliver to all addresses
Geographical pricing	<ul style="list-style-type: none">• USO products required to have uniform price, irrespective of where it is posted or delivered
Quality of service	<ul style="list-style-type: none">• Current quality of service requirements include delivering 93% of first class items next day, with a minimum of 91.5% each post code area.

Like for like comparisons across countries of the cumulative size of the obligation are difficult due to the number of different categories

Comparison across three illustrative categories



Delivery speed for first class/ priority mail (QoS target)

	D+1	D+2	D+3	D+4
Delivery frequency (days per week)	2			
	3			
	4			
	Italy – 80%			
	Denmark 80%		Spain 93%	Finland 50%
	5			
6				
	Belgium 93/95%			
	Netherlands 95%			
	Germany 80%			
	France 85%			
	UK 93%			

- Lower delivery frequency and delivery speed and/or quality in some countries
- Where 6 day letter delivery is required, QoS requirements are lower
- UK QoS targets are on a regionally disaggregated basis (not national average)
- USO reform has been enacted in other countries:
 - Norway, Finland – Reduction in delivery days and letter speed
 - Netherlands, Denmark, Sweden – reduction in delivery days
 - Italy – AB delivery model
- Reform has typically been to ensure the sustainability of the USO and to reflect changing user needs

Belgium QoS target in law is 93%. QoS in management contract is 95%.
Italy (74% 5 days, 25% 2.5 days)

Building the case for USO reform



Postal Services Act 2011

- Stems from the EU's Postal Services Directive
- USO criteria - universal, uniform and affordable
- Section 34 of the PSA – all that is needed is for Ofcom to demonstrate that any change to the minimum requirements reflects the reasonable needs of postal users

Ofcom

- Sets Designated Universal Service Provider conditions including: delivery speed, quality of service, pick up and delivery points, safeguard caps
- USO changes should be: simple, measurable and basic (i.e. reasonable user needs which are not otherwise sufficiently met by the market)



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