



Mail Redirection Services: MaltaPost plc proposed changes in tariffs and service conditions

Consultation Document

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1 Executive Summary

The Postal Redirection Service is part of the Universal Service (hereafter 'US') offered by MaltaPost plc (hereafter 'MaltaPost') to its customers. The redirection service allows an addressee who has moved to a new address to continue receiving mail bearing the previous address for a period of time.

Given that the redirection service is part of the US, MaltaPost offers this service on a nationwide basis. The nature of the redirection service is intrinsically complex and is progressively becoming more challenging due to social, demographic and other developments. The current MaltaPost sorting process is manual and requires extensive human effort, thus creating a challenging situation for MaltaPost to provide the service at the current price.

MaltaPost reviewed the profitability of such a service and has written to the Malta Communications Authority (hereafter the 'MCA') requesting a revision of the local redirection tariffs, and also other changes to the service conditions.

In its proposals, MaltaPost requested such revisions since MaltaPost contends that the service is loss-making, is operationally taxing, and non-proper use is being made thereof (by allowing those not acting in good faith to conceal their real postal address). Furthermore, the redirection service is one of those services which is generating significant customer complaints as a result of mis-deliveries. These mis-deliveries are in part due to the further manual effort involved, compounded with incomplete or ambiguous addressing, and thus renders the service prone to mistakes. MaltaPost therefore argues that this service should be limited to a specific time period in order to curb certain misuse cases, and also to reduce the operational efficiency impact from the manual effort required.

The MCA reviewed MaltaPost's request and communicated with the company asking for further information and clarifications. Following the feedback from MaltaPost, the MCA is now consulting on various considerations that will be described in further detail below.

1.1 Structure of the Document

The document is structured as follows:

- Section 2: A background on the mail redirection service;
- Section 3: A detailed overview of MaltaPost's request;
- Section 4: Various considerations regarding MaltaPost's request.



2 Background

The Mail Redirection Service is intended to be used when a client changes address, and thereafter mail that is addressed to the old postal address is instead routed to the new postal address.

This service is provided by MaltaPost on a nationwide basis, given that it is part of the US onerous on MaltaPost, and is available to redirect mail to new local addresses as well as to new foreign addresses. As per the MCA Decision dated June 2012, only tariffs for the local redirection service are subject to review by the MCA.

3 MaltaPost's Request

MaltaPost requested revisions both in the tariffs as well as in the terms of providing the redirection service. These proposals were made for both individual and business customers.

3.1 Current Situation

MaltaPost maintains an Activity Based Cost-accounting ("ABC") system and prepares separated accounts which are audited on an annual basis. From these financial statements it is clear that redirection services are currently incurring losses. MaltaPost also stated that even the overall profitability of the entire Universal Service is gradually decreasing, and that the latest results indicate a profitability that is only just within the acceptable range of return set by the MCA. In addition, MaltaPost submitted that without any price adjustments, the US profitability would continue to decrease below that level, given the ongoing challenges such as internal and external cost increases as well as volume drops. This decline is not attributable only due to redirection services, but also to other services which are part of the US.

The tariff currently charged per annum by MaltaPost for redirection services depends on whether a user is classified as 'Individual/NGO' or 'Business', and also depends on the number of years for which the service is prepaid. The following table reflects the currently applicable tariffs for local redirections:

General all mail	Individual /NGOs	Businesses
Year 1 (1 – 6 months)	Free	€10 pa
Year 1 (7 – 12 months)	€5 pa	
Year 2	€15 pa	€30 pa
Year 3 to 5	€25 - €65 pa	€40 - €65 pa

Table 1: Current MaltaPost Local Redirection tariffs



Similar to local redirections, MaltaPost provides the redirection service to foreign addresses; that is mail addressed by the sender to a local address which is then routed overseas. In the case of foreign redirections, apart from the tariffs being differentiated for individual and business, they are further differentiated by destination Zones. The table below reflects the current tariffs for foreign redirected mail;

Term	Individual	Business
Year 1	€16 - €22	€31 - €43
Year 2	€47 - €65	€94 - €129
Year 3	€78 - €108	€125 - €172
Year 4	€110 - €150	€190 - €260
3 Year Package (year 2 to year 4)	€200 - €280	€375 - €520

Table 2: Current MaltaPost Outbound Redirection Tariffs (Zone A1 & D)

3.2 MaltaPost's Proposed Tariffs for Local Redirection Service

MaltaPost submitted new tariffs taking into account the current loss-making situation of redirection services which is apparent from the audited separated accounts. MaltaPost also highlighted that its operating expenditure is constantly increasing, and the trend indicates that this will be the ongoing pattern. MaltaPost in particular submitted that it is currently incurring increasing costs to provide loss-making redirection services year after year, mainly originating from the two main sources listed below:

- Staff costs which are subject to constant yearly growth; and
- Other costs that are influenced by various factors, including general inflation.

MaltaPost proposed the following changes:

General: All Mail	Individual	Business
Number of free months	3 months	1 month
Tariff after free months	€10 per month	€40 per month
Administration Fee	€10	€25

Table 3: MaltaPost's Proposed Redirection Tariffs



As part of the above tariffs, the main changes that MaltaPost is proposing are the following:

- In the case of individuals the number of free months are reduced from 6 months to 3 months. On the other hand businesses are offered one free month.
- Customers have to pay an administration fee when they apply for the service.
- Rather than paying an annual tariff, customers are required to pay for a monthly tariff which provides flexibility for the user to review each month whether to opt for the service or not.

Apart from the above changes, MaltaPost is proposing that this service it provided for up to a maximum of one year following each application. As a result, after the time period elapses, the customer address would no longer be able to request a redirection service, and consequently any mail not addressed to the new address would no longer be redirected to that address.



4 Considerations on MaltaPost's Requests

The MCA reviewed MaltaPost's proposals and further information was requested to clarify a number of points. As part of the analysis, the MCA identified a number of scenarios, both for the tariff revisions, as well as for the period of service capping (MaltaPost's proposal to cap the service for one year only).

4.1 Scenarios for Redirection Service Tariffs

The following are the scenarios that the MCA identified for the tariff proposal:

- **Case 1:** MaltaPost does not review its redirection fees, and the tariffs remain as they are;
- **Case 2:** MaltaPost carries out some changes to redirection fees, but not to the full extent that it has proposed;
- **Case 3:** MaltaPost implements all tariff changes that it proposed.

The following sections will provide further detail on each case.

4.1.1 Case 1: MaltaPost redirections price request not adopted

The MCA analysed the financial performance of the redirection service reported in the audited separated accounts generated by MaltaPost's activity-based costing system in view of the tariff increases that MaltaPost are proposing. The MCA also communicated with MaltaPost asking MaltaPost to provide further information and projections of how these tariffs will impact the profitability of the US, redirection service viability and customer affordability.

MaltaPost also emphasised that the service is very dependent on manual input, and hence this consideration complicates its sorting system as well as being prone to human error, leading to customer complaints. These factors translate into high costs and more hours being allocated on this service, leading to even higher overheads and consequently increasing losses being generated from this service.

Taking into consideration the financial performance of this service as well as forward-looking projections, maintaining the current tariffs would contribute negatively to MaltaPost profitability, particularly that of the Universal Postal Service which MaltaPost is obliged to provide under cost-oriented price conditions.



4.1.2 Case 2: MaltaPost redirections price request adopted with a number of amendments

The second option is that a review of the tariffs occurs that still supports MaltaPost profitability but also seeks to mitigate the effect on end-user affordability. While MaltaPost pointed out that it is incurring losses on the redirection service and hence a review is required, the affordability of a specific universal service must also be catered for. Given these two aspects, there could be different scenarios where such a balance may be reached. The following table gives an example of how the MaltaPost proposal could be revised.

General all – Mail	Individual / NGO		Business	
	MaltaPost Proposal	Revised Scenario	MaltaPost Proposal	Revised Scenario
Free months	3 months	6 months	1 month	3 months
Tariff after free months	€10 per month	€10 per month	€40 per month	€40 per month
Administration Fee	€10	€10	€25	€25

Table 4: MaltaPost Proposed and possible revised scenario

4.1.3 Case 3: MaltaPost adopts redirection prices as it proposes

The third scenario is that the MaltaPost implements all the changes in prices for mail redirection services to the full extent that it has proposed. Under this scenario it would be expected that redirection volumes would drop and thus less costs incurred to provide this service and the delivery of mail in general. The change in volumes would facilitate better and more attention to the sorting phase, leading to less customer complaints. This would improve customer experience and bottom line profitability of the service, and indirectly that of the US. However, it should be noted that some of these gains would also result from Case 2 above, with the difference that Case 3 would have the largest impact of affordability.



4.2 Scenarios for Capping of Redirection Service Duration

The following are the scenarios that the MCA identified in relation to the capping of the redirection service duration:

- **Case 1:** MaltaPost does not change the duration and the service continues to be provided as currently is.
- **Case 2:** MaltaPost implements a capping for the duration of redirection services but not limited to one year only.
- **Case 3:** MaltaPost provides the redirection service limited to one year only.

The following sections will provide further detail on each case.

4.2.1 Case 1: MaltaPost continues to provide redirection services without duration caps

Currently MaltaPost provides the redirection service without any limitation in the duration of individual redirection instructions. Users can choose to give redirection instructions for a number of years, and for each year the customer has to pay an increasing annual fee. Users can also give successive redirection requests in a way that renders the service indefinite. MaltaPost is proposing that the instructions to provide a redirection service will be capped for a maximum of one year only. MaltaPost pointed out that other operators in different countries also set a maximum period of time for this service. These measures would allow MaltaPost to control further the challenges generated by an otherwise high flow of redirections, and hence the resulting operational costs. MaltaPost submitted that clients would still have ample time to inform their correspondents of the change in address.

On the other hand, the redirection service is mainly required by individuals and can be especially important in specific cases for transition purposes (whether moving residence or other personal circumstances). Hence limiting the redirection service period to one year in all instances may cause difficulties to end-users.

4.2.2 Case 2: MaltaPost caps the duration of redirection services but not limited to one year

When considering all the issues that MaltaPost submitted regarding the situation of the redirection mail services, there may be other forms of capping that could be implemented. Taking into consideration MaltaPost's submissions (including the operational impact, increasing costs, and negative contribution from this service to overall profitability) and the general objectives of maintaining universal postal services and their social aspects, the following table gives an example of how alternative capping timeframes could take place.



General all – Mail	Individual / NGO		Business	
	MaltaPost Proposal	Revised Scenario	MaltaPost Proposal	Revised Scenario
Maximum Period service is offered	1 year	2 years	1 year	3 years
Remarks	MaltaPost would not provide the service in the second year	MaltaPost would be able to charge a higher monthly tariff during the second year.	MaltaPost would not provide the service in the second/third year.	MaltaPost would be able to charge a higher monthly tariff during the second/third year.

Table 5: MaltaPost Proposed and possible revised scenario

4.2.3 Case 3: MaltaPost caps all redirection services to one year

The final scenario would be that the redirection service is limited only for one year, and after this period the customer would be no longer entitled to utilise this service in relation to the same old address. This scenario assumes that one year is enough for customers to inform their correspondents. MaltaPost would benefit from this limitation as volumes and costs would decrease and more attention focused on the remaining service activity. However, not all end-users may be capable to make alternative arrangements for such a change within a maximum period of one year. Apart from the impact on receiving end-users, in this eventuality MaltaPost (and senders) may also be confronted by a surge in refused, returned or otherwise undeliverable mail, which would be undesirable and create its own logistical problems.



5 Consultation Framework

The MCA is considering all scenarios and prior to taking a decision is referring the matter to public consultation.

The MCA invites comments from interested parties on MaltaPost's proposals and the different scenarios on the way forward, such that redirection mail services can continue to be provided as an affordable universal service in a manner which addresses the current financial and operational challenges affecting redirections.

For the sake of clarity and ease of understanding, the MCA encourages stakeholders to structure their comments in order and in line with the section and sub-section numbers used throughout this document.

In accordance with its obligations under Article 4A of the Malta Communications Authority Act [Chapter 418 of the Laws of Malta], the Authority welcomes written comments and representations from interested parties and stakeholders during the national consultation period which shall run from the 27th November 2018 to the 11th December 2018.

The Authority appreciates that respondents may provide confidential information in their feedback to this consultation document. This information is to be included in a separate annex and should be clearly marked as confidential. Respondents are also requested to state the reasons why the information should be treated as confidential.

For the sake of openness and transparency, the MCA will publish a list of all respondents to this consultation. The Authority will take the necessary steps to protect the confidentiality of all such material as soon as it is received at the MCA offices in accordance with the MCA's confidentiality guidelines and procedures. Respondents are however encouraged to avoid confidential markings where ever possible.

All respondents should be submitted to the Authority, in writing by not later than 12.00hrs on 11th December 2018 and addressed to:

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