



EXECUTIVE COMMITTEE
AGENDA
For the meeting to be held on 11 September 2014
In Room 501

Present: Paula Vennells (Chair), Martin Edwards, Gavin Lambert, Mark Davies, Lesley Sewell, Kevin Gilliland, Neil Hayward, Nick Kennett, Henk Van Hulle, Martin George, Chris Aujard, David Ryan, Nick Sambridge (deputising for Chris Day)

Apologies: Chris Day, Alwen Lyons

In attendance: Robin Nuttall (McKinsey), Jit Kee (McKinsey), Dave Mason, Michael Brown, Pete Markey, Paul Brown, Belinda Crowe

Start time: 09.30

End: 17.00

Time	Item	ExCo Sponsor/Presenter
09:30 – 11.30	FS plan – Pre Board	Nick Kennett
11.30 – 11.45	BREAK	
11.45 – 12.45	Risk update	Chris Aujard/Dave Mason
12.45 – 13.15	SLT planning session	Mark Davies
13.15 – 13.45	LUNCH	
13.45 – 14.30	Pre Board: <ul style="list-style-type: none"> Win in Mails including Network Development Digital & SME Insurance 	Martin George/ Kevin Gilliland Nick Sambridge
14.30 – 15.10	Christmas Plans (verbal)	Pete Markey/ Paul Brown
15.10 – 15.25	BREAK	
15.25 – 15.40	Transformation Committee update	Michael Brown
15.40 – 16.00	Commercial Committee update (verbal)	Martin George
16.00 – 16.30	Verbal update on Sparrow	Belinda Crowe/Chris Aujard
16.30 – 16.45	Verbal Industrial Relations update	Neil Hayward
16.45 – 17.00	Noting papers for the Board: <ul style="list-style-type: none"> Health and Safety Report 	
17.00	CLOSE	

Strictly Private & Confidential

DISCUSSION DRAFT - EXCO ONLY

Financial Services strategy

WORK IN PROGRESS

Discussion document
11 September 2014





Executive summary – Market and FS starting point

Post Office has the opportunity to build a successful financial services business leveraging its core strengths of a mainstream trusted brand, extensive distribution, and its stronghold in products like Payments and Travel Money and growing capability in retail financial services. This is an ambitious plan that will require material capability upgrades, new business models and new execution rhythm and support from Post Office

- **FS is an important part of Post Office's business in a rapidly evolving competitive market environment; it has key strengths but will need to overcome a few structural challenges to deliver its target vision, strategy and profit.**
 - **Financial performance:** FS contributes 32% of Post Office revenue at c70% direct product contribution and generates profit after indirect costs of £80m and EBITDAS of £60m¹
 - **Market trends:** The market is witnessing strong digitisation, particularly in simpler products like credit cards and basic insurance, however, there remains a strong face to face segment. In addition, Payments has been a particular area of innovation, posing challenges to some of Post Office Money's core business
 - **Competitors:** The market is also seeing a strong emergence of new challengers (e.g., supermarket banks, TSB), while at the same time high street incumbents are shrinking their branch footprints. Outside of banking, Paypoint is a threat, particularly in FS' core businesses of bill payments, with other (typically digital) players attacking areas like Travel Money, money transfer and prepaid debit
 - **Regulation:** Finally, UK financial services is facing an increasingly elevated conduct environment
- **Journey so far:** Post Office Money has grown revenues from £291m in 2010/11 to £311m in 2013/14 and is targeting £330m in 2014/15, despite a fall in Payments revenue of c£20m pa. It has reduced the constraints (e.g., contract with Bol), tested new products (e.g., current accounts), hired required talent, strengthened the partnership and working rhythm with Bol (e.g., on pricing, product development). However, financial services at the Post Office has low awareness & credibility, alongside a general perception of being hard to do business with



Executive summary – Vision and revenue plan

- The Post Office FS vision is *“Post Office Money is the trusted choice for your finances and doing more in life, offering unparalleled convenience and value”*¹. This vision reinforces the broader Post Office vision, incorporates learnings from other challenger brands (e.g., Walmart Financial Services), and anchors on elements that make it distinct from our competitors' and compelling to our core customer e.g., unparalleled convenience, trusted choice, access and proximity, and value
- Post Office FS' vision and strategy makes it stand apart from the incumbent banks and emerging attackers. It does that through a brand that is trusted, with wide access and several connect points with mass market customers, starting with the core payments business, and enabling crossover into other products. Post Office's distribution and ability to provide face-to-face access near its customers further distinguishes Post Office FS.
- The original revenue aspiration of £538m represents a material increase of £227m from the 2013/14 result of £311m. This increase has been disaggregated by McKinsey into 5 categories with increasing level of risk:
 - Momentum growth of core products (£56m): Revenue growth from the existing core products, e.g., payments
 - Binary outcome (£76m): Revenue hinging on the outcome of the on-going negotiations to capture more of the insurance value chain (largely motor and home insurance), plus associated revenue
 - Material capability or business model build (£26m): Revenue from products like mortgages and current accounts that require significant upgrade of current capabilities (e.g., sales force effectiveness, linking POS data to CRM)
 - Early concept stage (£39m): Revenue associated with propositions that could be compelling, but are yet to be fully designed/tested in the market (e.g., SME proposition, Investments)
 - Very high execution risk (£30m): Revenues deemed to have low achievability (e.g., gaining share in competitive markets, Bol balance sheet capacity)

Based on this risk assessment, one can see a path to revenues of £508m in 2019/20 if Post Office successfully delivers on the risks and outcomes identified above

In addition to the revenue projection for 2019/20, there is additional upside potential by entering areas like prepaid debit accounts, personal loans, etc. These have not been sized at this point.

¹ Final text being evaluated



Executive summary – Building blocks and risks

- The delivery of this vision and associated plan, based on the current Post Office operating model, will be achieved through four building blocks
 - **Focussed customer segmentation with increased insight.** This will be a powerful combination of self-selection from the mass market and targeting of selected customer segments supported by a focussed analytical capability
 - **A strong product proposition meeting customer needs;** to include moving up the value chain (e.g., in insurance)
 - **Customer-led physical and digital distribution strategy,** which includes a hub and spoke branch model, F2F sales of complex products, online and contact centre for simpler products, underpinned by data capture and referrals across the network
 - **Upgraded capabilities,** which includes a more visually distinct PO Money brand, supported by focussed FS capability through people development, data analytics, technology and marketing
- **Key strategic risks to the delivery of the 2020 Strategy (as part of overall 12 FS risks)**
 - **Delivery of key programmes** - the growth in our insurance business, both for sales and value chain improvements are heavily dependant on the successful conclusion of Titan (travel insurance new business model) and Hawk (acquisition of Bol's insurance business).
 - **Sales capability** – there is a risk that the new sales model cannot deliver the required sales outcomes
 - **Compliant sales** – Financial Services sales are heavily regulated and mis-selling presents a key risk to growth and credibility.
 - **Bol's ability to support the strategic growth plans** – there is a risk that Bol's balance sheet capacity and operational capability is insufficient and cannot sustain the growth required.
 - **Competitor reaction** – there is a risk that the activities will provoke a direct response from our competitors making the challenge to succeed harder.

These risks are addressed in the paper



Executive summary – TOM and next steps

- Changes which are being contemplated to the TOM may have a meaningful impact on FS. For example,
 - If cash were removed, it would impact FS revenue by c£200m
 - If F2F advisors were no longer available to FS, this could impact projected 2020 revenues by £30m+, require an overhaul of the strategy which hinges on physical access and potentially result in a contractual breachThese require further validation
- In the next few weeks, we will look to add more detail on specific areas e.g.,
 - Details on FS' payments strategy
 - Implications of emerging TOM on FS
 - KPIs to track progress towards delivery of the plan with concomitant revenues and profit
 - Detailed 3-5year profit plan
 - Potential for offering community oriented services



Contents

- **FS starting position and context**

- FS vision under current Post Office's operating model
- Post Office FS 2020 revenue plan
- Building blocks to achieve 2020 Vision
- Alternative scenarios reflecting TOM cost challenge
- Key milestones and next steps

WORK IN PROGRESS

PRELIMINARY YTD FINANCIALS

DISCUSSION DRAFT - EXCO ONLY

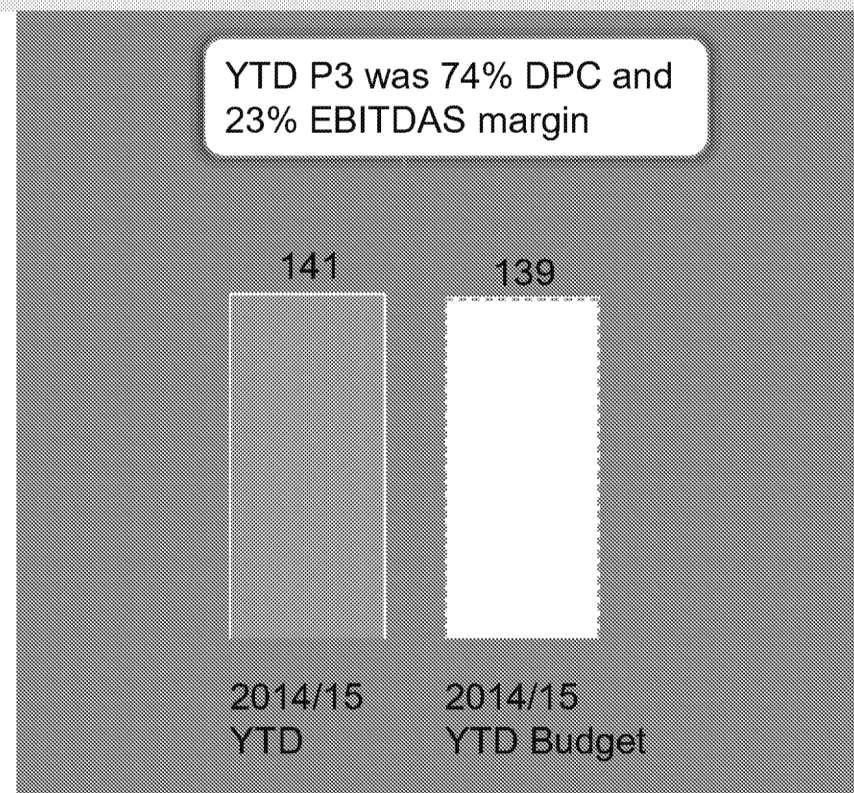
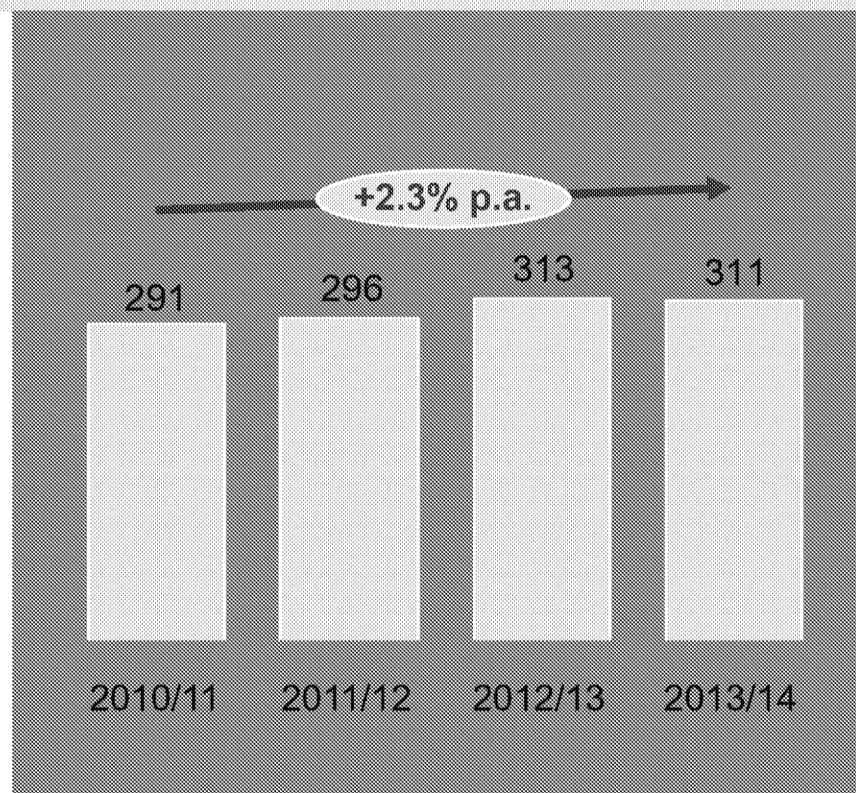
FS starting position: In 2013/14, FS delivered £311m in revenue at a 70% DPC; FY 2014/15 on track at higher margins



FS has consistently grown & delivered a 70% DPC¹ + 21% EBITDAS in FY 2013/14



It is on track to deliver 2014/15 revenue at a higher margin



1 DPC = Direct Product Contribution

Source: Post Office Finance team

FS comprises 4 main product categories: Traditional strengths are in Payments and Travel



DPC and revenue for 2013/14

Payments <ul style="list-style-type: none"> • Bill Pay (inc. payouts) • Postal Orders • Moneygram • PSP • Money card • Gift card 			Banking Services <ul style="list-style-type: none"> • 3rd party cash-based services for customers of other banks (personal and business) • ATMs² 		
	DPC¹	Revenue		DPC¹	Revenue
	61%	£82.7m		48%	£88.8m
Travel <ul style="list-style-type: none"> • Foreign exchange • Travel Money card • Travel insurance 			Personal Lines (Banking & Insurance) <ul style="list-style-type: none"> • Banking: Savings, Current accounts, Investments & Cards • Lending: Mortgages & Loans • Insurance: Motor, Home, Life 		
	DPC¹	Revenue		DPC¹	Revenue
	63%	£71.5m		86%	£72.6m

1 DPC = Direct Product Contribution

2 ATMs revenues are based on original strategy plan, but ongoing negotiations are underway regarding POCA which could adjust these revenues

Source: FS Strategy team



Market: Key insights

Overview of market trends

- **Payments:** UK remains cash centric but importance of cash-based payments is declining. Moreover, Post Office specific products face challenging dynamics e.g.,
 - **Bill Payment:** Tough market given competition from PayPoint, growth in Pre-Pay market, and move to mobile top-ups caused by customer preferences & new regulation
 - **Postal Orders:** Lower demand given contraction in unbanked population and declining use cases as Govt. digitises
- **Banking Services:** Major banks looking to downsize their branch networks and seeking appropriate exit options
- **Travel Money:** Market in modest growth but facing increasing competition & lower potential demand for forex purchases given increasing comfort with card spend abroad; opportunity from Pre-paid cards given low penetration and customer misconceptions
- **Personal Lines:** While digital increasingly important, branches remain key for specific products e.g., Current Accounts and mortgages; this holds true especially for low income and elderly



Implications for Post Office Money

- Growth in new **business areas** required to offset decline in traditional Payments business through new product areas (i.e., Personal Lines) and within the Payments business itself (e.g., digital solutions, PPD)
- Opportunity to create a utility service to major banks
- Branch based approach reflects **market dynamic**, e.g., current customer base and competitor moves

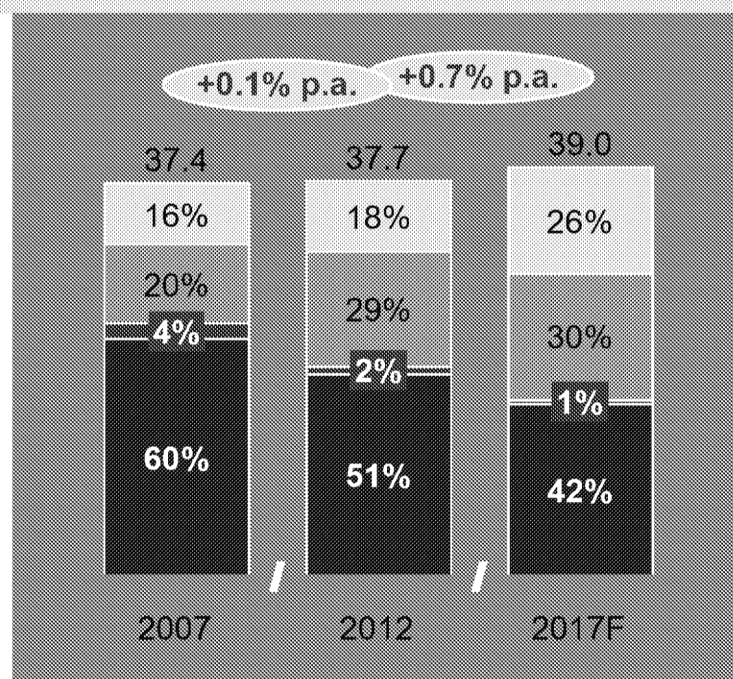
WORK IN PROGRESS

Market – Payments: The UK remains a cash-centric market but the importance of cash-based payments is declining

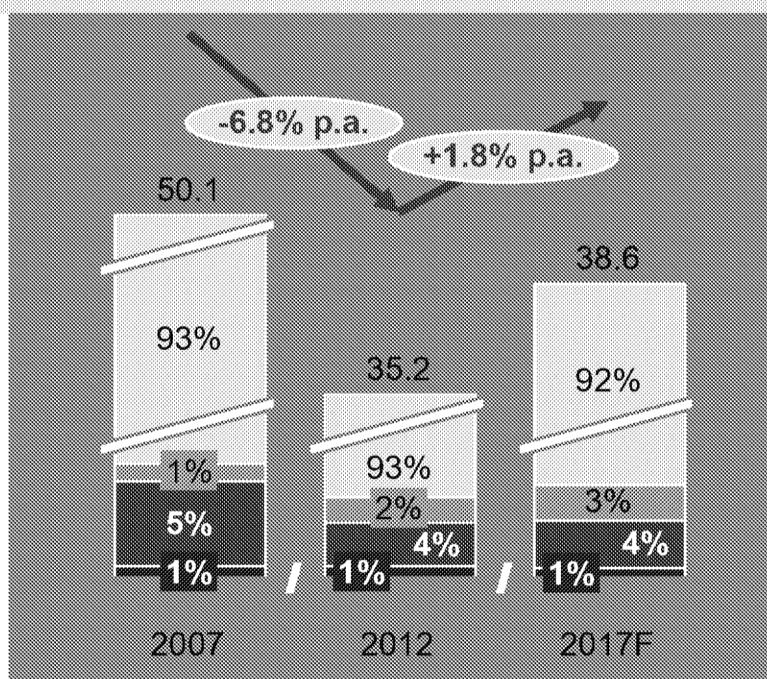


Electronic¹ Card² Cheque Cash

Number of payments transactions, billion



Value of payments transactions, USD trillion



- Cash is dominant payment method, capturing 51% of volumes in 2012 & 42% by 2017; high share of cash driven by usage by small & micro merchants & P2P
- Electronic payments (CT/DD) expected to sharply increase share in volumes driven by account-based solutions targeting P2P payments (e.g., Faster payments, PingIt)

Traditional FS Payments business in decline given move away from cash

1 Incl. credit transfers and direct debits; 2 Incl. prepaid, debit and paylater card transactions

Source: McKinsey Global Payments Map

Market – Payments: Post Office-specific payments products face challenges given declining demand & new technologies



Bill Payments

Products

- Growth in Pre-Pay customers of 4.3% CAGR from 2008-2011
- New products likely to be introduced that combine credit and pre-payment

Competitors

- Aggressive competition from PayPoint, with 80% of Pre-Pay & 54% of Post Pay markets
- Payzone exit creates opportunity to gain share where retailers want 2 providers

Customers

- Post-Pay volumes declining as utilities incentivise consumers to pay via DD to reduce costs to serve (e.g., DD & standing orders comprised 66% of regular payments in 2011 up from 50% in 2001)

Channels

- Govt. mandated smart meter roll-out may dis-intermediate physical top-ups, given focus on top-up via app / online

- Post Office product constitutes entire market
- Product is a secure cash based payments offer

Lower customer demand

- Unbanked population shrinking rapidly (CAGR 2003-11 of -12%) with current base <3m (1.5% of UK population) due to growth in Basic bank accounts
- Product seen as old fashioned and has little appeal to younger generations¹

Reducing use cases

- Digitisation of regulatory payments (e.g., visa, passport, DVLA) reduces use cases
- New technologies increasingly render non-mandatory use cases obsolete – e.g., gifting, mail order, donations

Additional threats to Payments caused by competitors, new technology & regulation re: Smart Meters & Basic Bank accounts

1 Skopos Research 2009

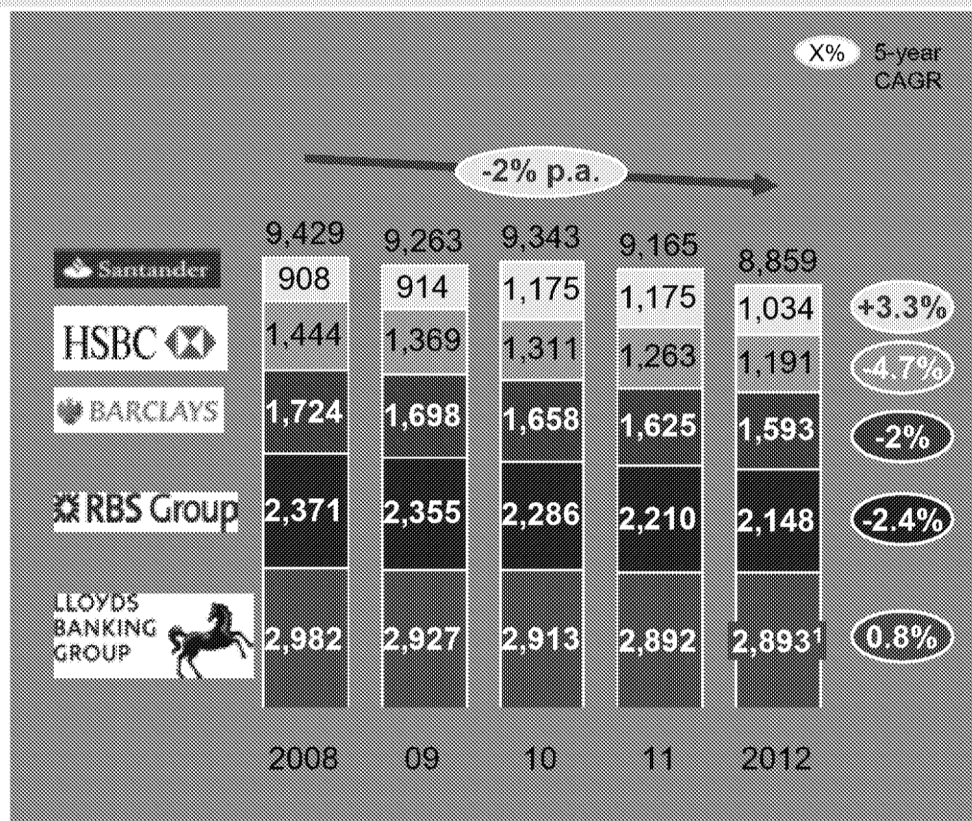
Source: UK Payments Council 'The Way we Pay'; Smart Metering PrePayment in Britain 2013 report

Market – Partner Banking: FS has opportunity given large banks are scaling back their physical footprint



Big 5 are reducing their footprint

➤ Opportunities & challenges



Requirement for utility

- Exiting uneconomic locations has led to pressure for 'last branch in town'
- Political appetite for a provider of financial services to rural or other hard to serve locations

Competitive threats

- Other providers with large networks in particular PayPoint may leverage existing capabilities to provide banking services, either to individuals or to small businesses

Potential for utility play as Big 5 look to further scale back branch presence; action required to offset competitive threats

Source: British Banking Association database

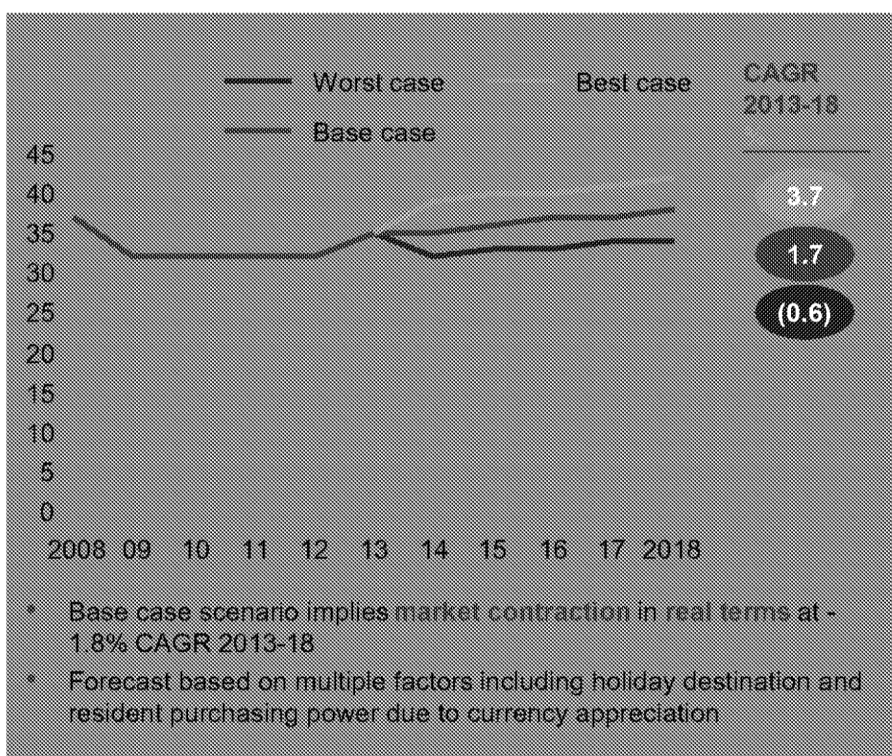
Market – Travel Money: Modest growth with increasing competitive pressures



Market size and Forecast



Overview of key dynamics

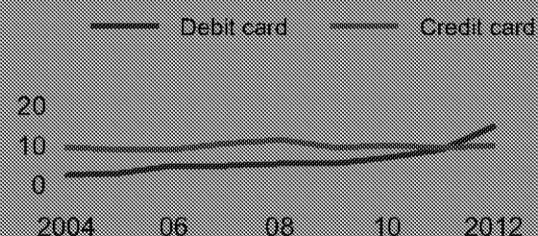


Increasing competition

- Post Office leading player with 26% of market¹
- Increasing competition e.g., Asda's planned market entry, Sainsbury's £735k ad spend summer 2013/14 and growth in use of price comparison websites e.g., 31% of consumers check rates before purchase

Increasing comfort with using debit cards abroad

Value of holiday currency UK £10



- Higher card usage likely to drive down Forex purchases

Rise of all inclusive holidays

- Rise in all inclusive holidays during recession given value for money & ability to control spending
- While independent travel market expected to recover, potential for further growth remains in all inclusive given 50% penetration and 23% of remaining being open to possibility

Pre-paid

- Opportunity given low penetration of pre-paid cards & clear misconceptions given fee concerns

2019/20 plan for Post Office Money Travel Money has below market growth; conservative approach sensible given trends

1 Answer to question: 'Which of the following did you use to arrange your foreign currency for your holiday abroad over the last 12 months?'

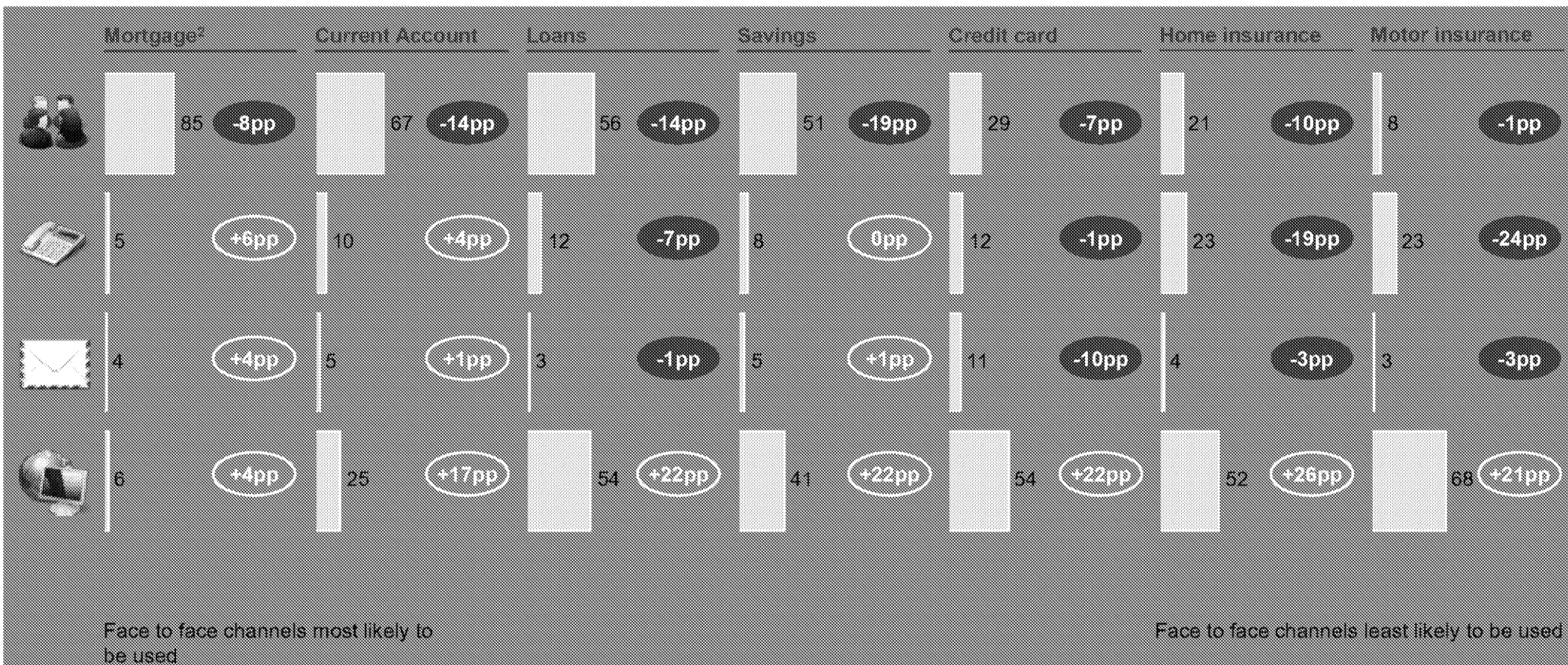
Source: Mintel 'Travel Money' report May 2014

Market – Personal Lines: While Digital increasingly an important channel for sales, Branch remains key for specific products

DISCUSSION DRAFT - EXCO ONLY

Channel of arrangement¹, 2013H²

xx Absolute change since 2007



Current strategy to focus on online for Insurance and F2F sales for Current Account & Mortgages in line with market

1 Respondents may give multiple responses; base: All arranging product in last 6 months

2 Not based on GfK but on POL Mortgages Strategy; mail and telephony estimated

Source: GfK Survey 2013



FS Starting position: Key insights

Overview of Starting position

- Post Office Money is **very different to a bank** in terms of its role in the value chain, economics, customer trust and distribution footprint. In particular:
 - Lack of Balance Sheet ownership translates into lack of control over pricing & ability to rapidly introduce new products
 - Economics driven by front-book with higher returns vs. traditional banks
- Financial Services suffers from **low awareness and credibility** for financial services, alongside perception of being harder to do business with
- **Business mix** has evolved substantially over time, given decline in traditional Payments business offset by doubling of Personal Lines products
- Existing initiatives have focused on **reducing operating constraints** by strengthening partnership with Bol, moving up the value chain, and launching new products hiring new talent
- Moving forward, financial services is at the heart of the Post Office strategy going forward



Implications for Post Office Money

- Proposition cannot be based on being best in class on pricing and rapid product deployment
- **Concerted effort** required to raise awareness of financial services offer and build credibility in this space
- Moving up **value chain** will be critical to increase degree of control over customer experience
- The path forward should build on recent initiatives to reduce operating constraints

FS starting position: FS sits at heart of Post Office's strategic vision



<div>1</div> The most convenient Mails & parcels retailer	<div>2</div> The UK's leading challenger Financial Services provider	Government Services	Home Services
<ul style="list-style-type: none"> • We will be the number one e-commerce champion • Our customers (both consumers and SMEs) will be able to access our services at an additional 15,000 - 20,000 access points • Our customer journey will be seamlessly integrated with technology and online offerings • Transactions will be simple, easy and fast 	<ul style="list-style-type: none"> • We will be the leading challenger service provider • We will provide a credible alternative to banks that have lost public support • Our specialists will deliver trusted, quality sales advice on a wide range of financial products • We will internalise a greater part of the value chain • Lead generation & data capture via unrivalled branch network 	<ul style="list-style-type: none"> • Seize the opportunities from the Government transition to Digital • Manage the decline of traditional Government income streams 	<ul style="list-style-type: none"> • We will become a major challenger to the larger providers in broadband, mobile, and energy

Source: June Board strategy update

FS starting position: Within this market, Post Office position in the value chain poses specific opportunities & challenges

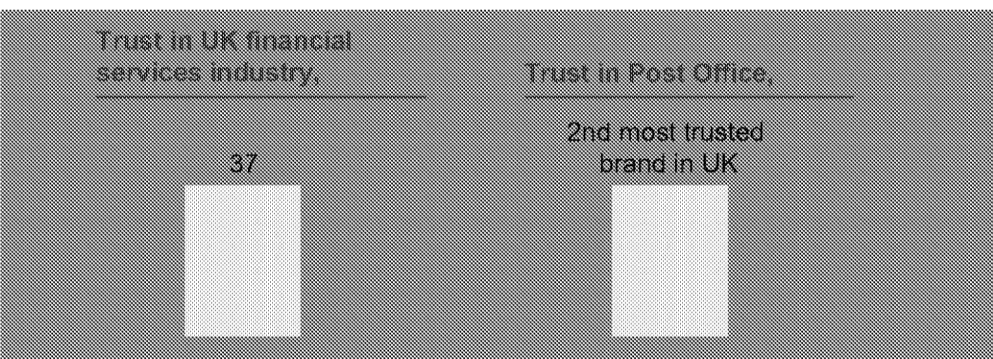


Different position in value chain

Different economics from a bank

	Product design & pricing	Marketing & sales	Under-writing	Treasury & ALM	Customer Service	Cross-sell / retention
Bank	✓	✓	✓	✓	✓	✓
Post Office (standalone)	✓	✓	✗	✗	✓	✓

	Bank	Post Office
Typical revenue drivers	<ul style="list-style-type: none"> • Large proportion of revenues stock-related • NIM • Fees 	<ul style="list-style-type: none"> • Large proportion of revenues flow related (sales commission) • Some revenue share • Profit share (FRES insurance, credit cards)
RoE	12%	High relative to a Bank



Bank

Post Office

- Control over Branch and online channels

Trusted brand

Different distribution footprint

Post Office faces unique opportunities and challenges given the difference in role it plays to a Bank

Source: POL FS management interviews; 2014 Edelman trust barometer– FS industry

DISCUSSION DRAFT - EXCO ONLY

FS starting position: Post Office has low awareness & FS credibility



		Rolling Average	Latest	
		Oct 12 - Sept 13	Aug -14	
FS Measures	Awareness (FS)	8%	10%	20%
	Consideration (FS)	13%	12%	35%
	FS credibility	13%	9%	50%
	Net Promoter Score	N/A	+24	Top Quartile (industry)
	Easy to do business with (CES)	N/A	71%	Top Quartile (industry)
Overall Brand	Net Promoter Score	N/A	-1 ¹	40%
	Easy to do business with	42%	27% ¹	57%

¹ Respondents may give multiple responses; base: All arranging product in last 6 months

² Not based on GfK but on POL Mortgages Strategy; mail and telephony estimated

3 month rolling month average May – Jul-14

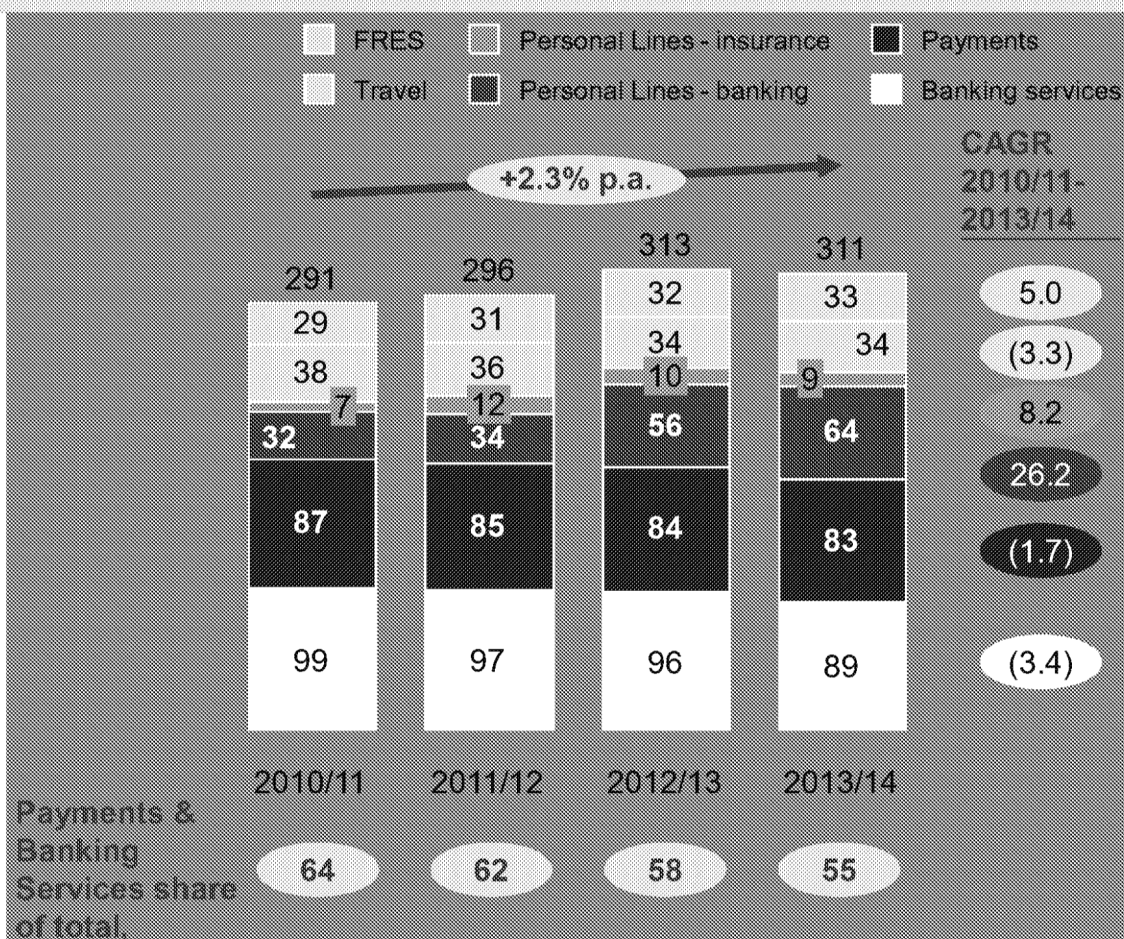
Source: Customer strategy team data

FS starting position: Income growth masks a mix shift with declining payments and banking, with a doubling of personal lines

DISCUSSION DRAFT - EXCO ONLY



Post Office FS income change 2009/10-2013/14



Key insights

Mix has shifted towards growing personal lines products

- Traditional payments and banking services have continued to decline
- Mix has shifted away from these declining businesses towards personal lines banking products e.g., savings, loans, mortgages

Revenue growth has been further underpinned by successful contractual re-negotiations

- Revenue growth has been underpinned by improved terms the Eagle contract negotiation that came into force in 12/13
- Reduction in 13/14 as a result of contractual negotiations in NS&I & banking mostly offset by Eagle contract & new revenues in mortgages, ATM and insurance

Source: FS Finance team

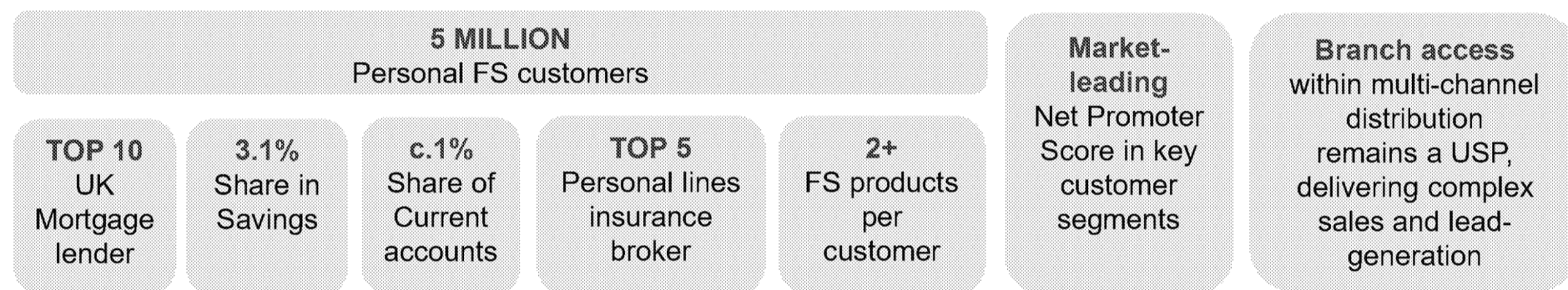
FS starting position: FS has begun to take steps to enhance its business model going forward



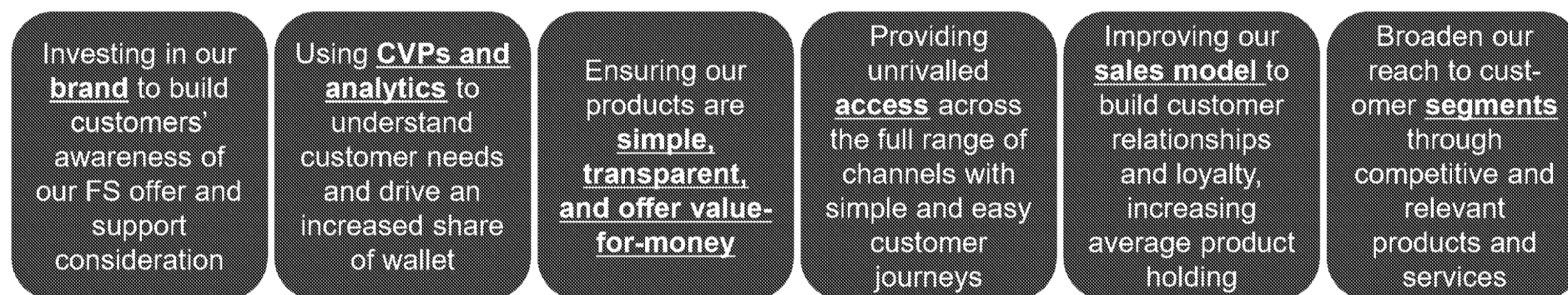
Improved commercial terms	<ul style="list-style-type: none"> • Project Eagle deal in 2012 to renew partnership with BOI thereby generating higher income for Post Office, through greater commissions (e.g., mortgages) and sale of POFS shares proceeds • Additional savings as a result in the reduction in the Post Office obligations that included: <ul style="list-style-type: none"> – New, lower minimum Crown and FS headcount requirements with estimated benefits of (£8m & 15.9m pa respectively & cost avoidance of £16.7m) – £15m pa marketing fund – Significantly improved protection for Post Office if Bank gets into financial trouble
Upstream position in value chain	<ul style="list-style-type: none"> • Project Titan, to be executed in Jan 2015, will enable FS to manage and control the value chain for Travel Insurance via the Post Office Managed Services (POMs) division. This will enable Post Office to offer more product propositions for customers including an aggregator proposition that will broaden reach for increased premiums/profitability, whilst increasing market share amongst the PO core customer base e.g. over 50's • Project Hawk to occur in 2014/15 and will entail buying out the Insurance portfolio from Bank of Ireland. Taken together with buy-out of Junction, will give FS ability to drive cross-sell (via owned call centre) and establish a 'broker style model', thereby increasing pricing flexibility
Sub-brand	<ul style="list-style-type: none"> • Post Office Money sub-brand launched in order to change customer perception of Post Office as an FS provider
Improved customer journeys	<ul style="list-style-type: none"> • Online customer journeys being improved e.g., reduced question set, application completeness tool bar; credit card redesign has led to increased sales (from 93% to 215% of YTD target) • New journeys also being replicated for in branch FS advisors to offer live acceptance decision, lower error rates and facilitate a compliant sales process
Enhanced sales capabilities	<ul style="list-style-type: none"> • Investment in sales training/Academy/tools to boost FS productivity • Capture customer data to improve conversion • Introduce new performance management and change incentive structure • Drive lead generation through CRMs and online appointment booking, and investment in Post Office Money brand

Source: FS business team

FS Starting Position: The vision set out in 2013 for FS in 2020 remains relevant



To deliver £538m income in 2020



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- FS starting position and context
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In building the Vision, we have drawn upon learnings from other challengers, in addition to FS context & market dynamics



Successful challengers don't initially go head-to-head with established players – instead they go in with simple 'non-relationship products' or target the un-served or under-served

Walmart ✱

Challengers keep it simple while offering clear points of difference and innovation vs. market

TESCO

Challengers have clarity over their hook product and use this as a platform to cross-sell

TESCO

Walmart ✱

Financial Services brand should build on parent brand for maximum advantage

TESCO

Walmart ✱

Many Post Bank and Retail challengers leverage their unique differentiator – i.e., their branch / store network...

star bank



... However, a compelling multi-channel offer is now just 'table stakes'



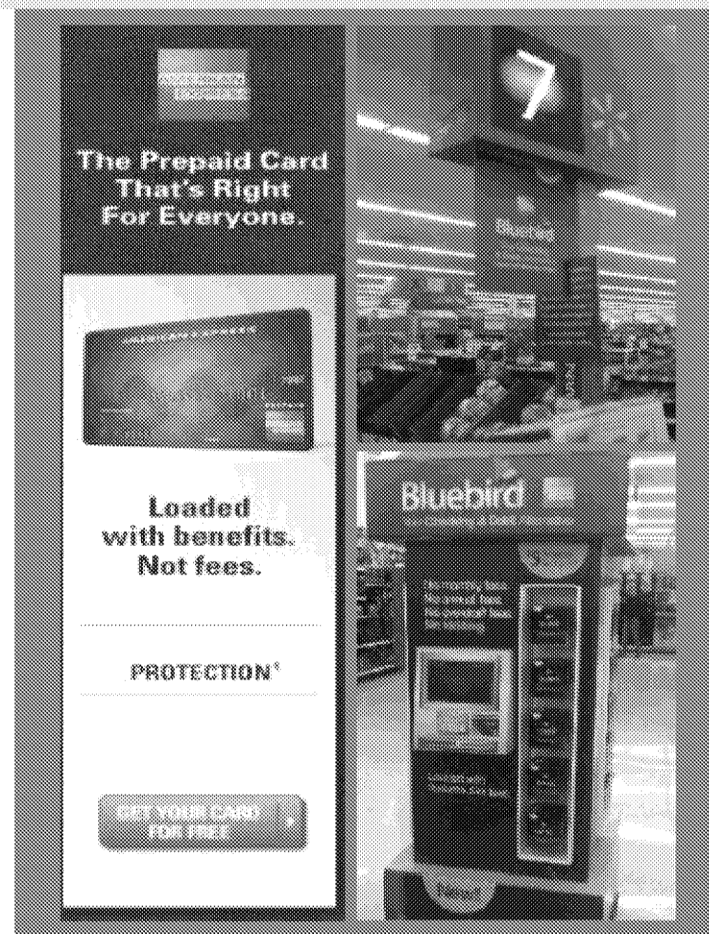
Postbank

Challenger learnings: In 2012, WalMart launched Bluebird, a nearly zero fee product and available online or via in-store terminals



Overview of Bluebird

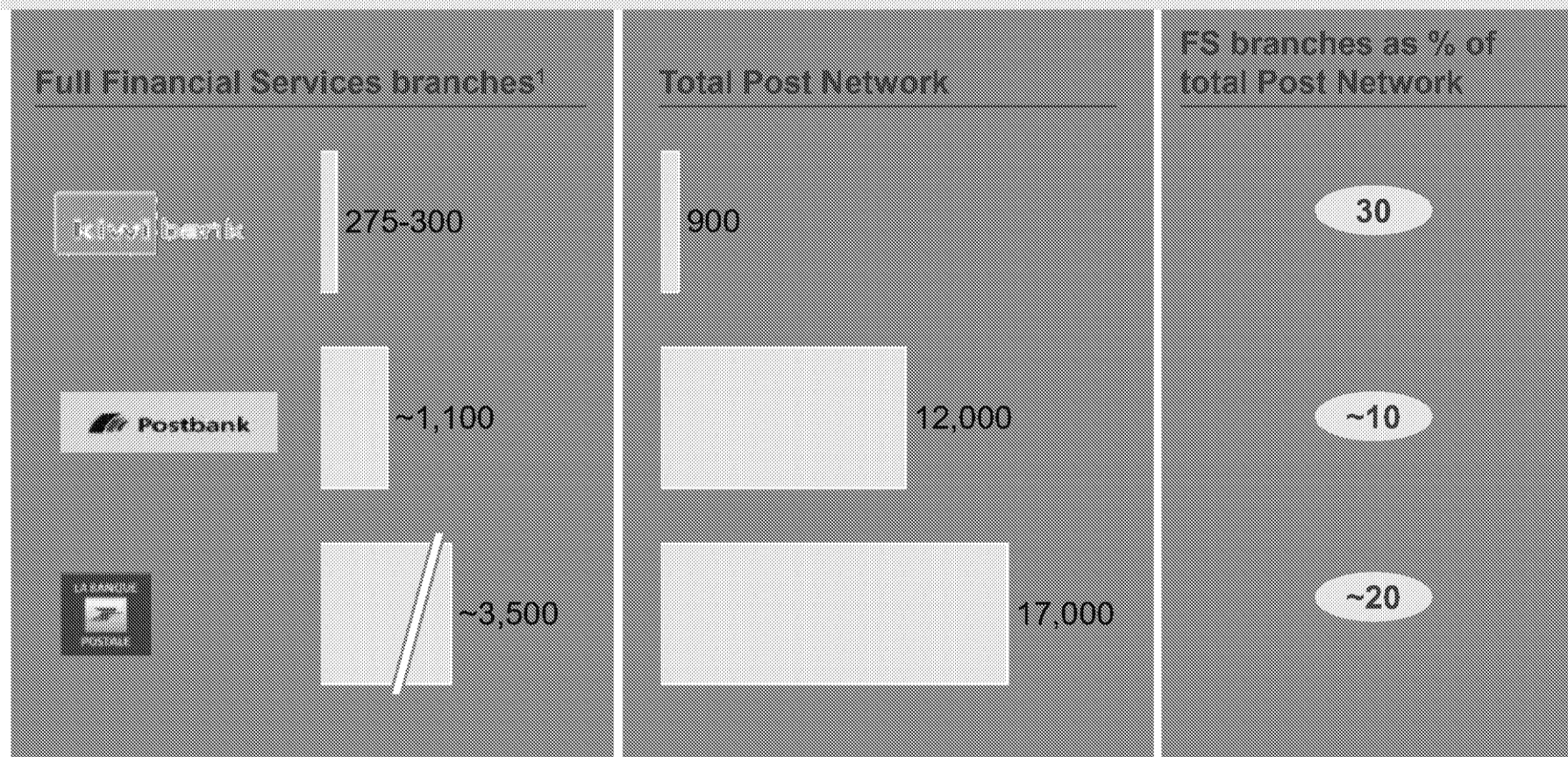
- Targeted as a replacement to traditional checking offering all the benefits with less cost
 - Direct deposit
 - Free ATMs
 - No overdraft fees
 - Electronic bill pay
- Cutting edge technology that includes digital P2P transfers, mobile wallet, mobile app, sub account controls; appeals to the technology savvy un-banked or under-banked – a growing market given rising smartphone penetration of this segment
- Carries typical Amex credit card features
 - Purchase protection
 - Fraud protection
 - Card replacement
 - Roadside assistance
 - Global Assist services
- Sold via low cost labour model – i.e., terminals



Challenger learnings: Postal banking players usually leverage large postal networks



Post Office only has a limited number of fully dedicated branches



¹ Defined as branches with complete offering and dedicated staff (e.g., FS Branch Managers, Sales Advisors, etc.)

NOTE: Most of the players rely on the wider Post Office network; for example, Postbank leverages ~4,500 Post Offices, JP Bank leverages ~24,000 outlets, etc.

SOURCE: Annual Reports

FS vision will emphasise access and convenience as differentiating factors



The Post Office helps make the important things in life happen.

*Post Office Money is the trusted choice for your finances and doing more in life, offering **unparalleled convenience** and value (to be refined)¹*

Other key words

What matters most in life

Alternative

Access

Being 'close to you'

PO Money will look to differentiate itself from other financial services providers by providing an easier way for customers to manage their finances via our multi-channel approach and unrivalled branch network

¹ Final to be agreed

This vision seeks to capitalise on Post Office Money's natural competitive advantages...



Trusted brand

- 2nd most trusted brand in the UK with a loyal customer base
- Similar levels of trust to other financial providers, including customers' own bank

Large distribution network

- Network size of 11,700 branches, with 99.7% of the UK population living within three miles of a branch

High branch footfall

- Over 95% of the UK population use Post Office services, with 18 million customers visiting branches every week

Loyal customer base

- Highly loyal customer base among the older generation, especially females



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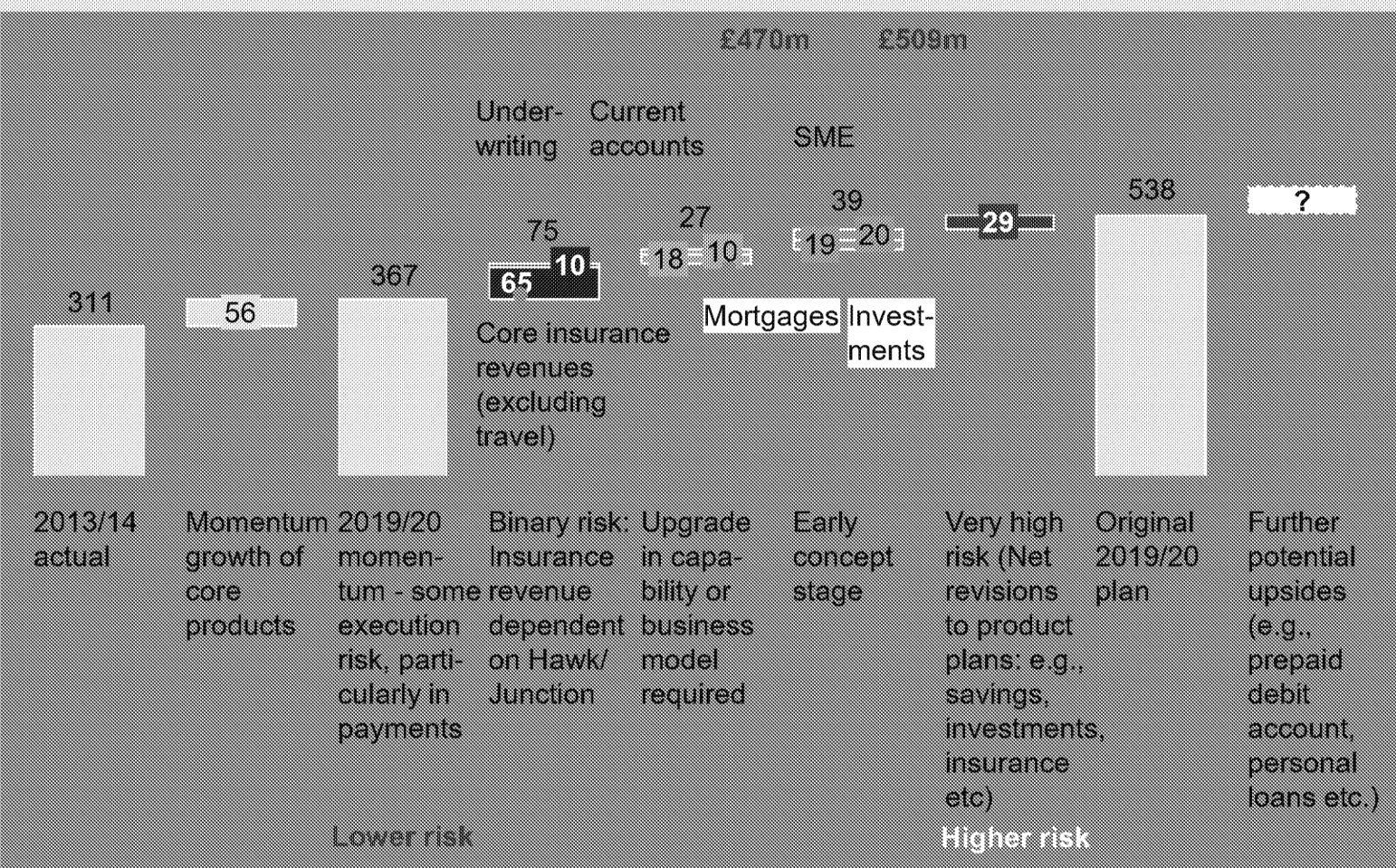
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Financial Services has an aggressive income aspiration, which has been disaggregated based on risk



Overview of Post Office FS income trajectory

Key observations



- FS is a growth business within Post Office, with a growth rate in line with a challenger business
- Assumes current operating model including:
 - Full branch network
 - F2F sales via specialists
 - POCA
- Plan is based on a measured and pragmatic approach to building capabilities e.g.
 - Ramp up of F2F advisors only occurs once current network of 223 advisors has hit break-even productivity

DISCUSSION DRAFT - EXCO ONLY

Revenue plan: 2019/20 product revenues are stratified by the level of risk to achievement

■ Downwards
revision

■ Upwards
revision



Summary of changes to plan by product



	Products	Original 2019/20 plan	Updated 2019/20 plan ¹	Category description
2019/20 momentum - some execution risk, particularly in payments	Bill payments	29.5	32.4	<ul style="list-style-type: none"> 2019/20 income is seen as part of business momentum (rather than having significant risk of achievement attached) Income number remains as in original plan or there are revisions Income number is dependent on a deal being executed, which in part depends on factors wholly outside the FS exec team's control
	Postal orders	16.0	16.0	
	Other payment services	16.1	16.1	
	ATMs	32.3	32.3	
	Banking services	60.8	60.8	
	Loans	5.0	3.6	
	Travel insurance	19.7	27.9	
	Moneygram	20.3	29.1	
	Travel money	32.0	25.1	
	Savings	76.6	64.5	
Binary risk ²	Cards	5.7	5.7	<ul style="list-style-type: none"> Income requires significant upgrade to capabilities to deliver target e.g., <ul style="list-style-type: none"> Sales force effectiveness Strong customer value proposition
	Motor/Home insurance	65.9	51.5	
	Other insurance products	17.0	11.0	
	Insurance underwriting income	10.0	10.0	
Upgrade in capability or business model	New insurance products	25.7	15.1	
	Mortgages	11.2	17.6	
Early concept stage	Current account	13.0	9.7	<ul style="list-style-type: none"> Income currently uncertain given idea still at very early stage of development Typically reflects new/untested concepts
	SME	20.0	20.0	
	Investments	20.3	19.3	
FRES		41.0	41.0	
Total		538.2	508.7	

¹ Net of McKinsey and Post Office product team revisions

² Note that total 'Binary risk' is higher on this page due to the fact ~£12m of low risk insurance revenue growth is included to show a full product view, but is split into the '2019/20 momentum' bucket for the purposes of the previous page

Revenue plan: FS 2020 aspiration has additional strategic upsides for new products not captured within the plan



	Description
Pre-paid debit account 	<ul style="list-style-type: none"> • Prepaid is the fastest growing payment method in USA and is projected to have double digit growth and Issuer revenues of \$9.8 billion by 2016 • Traditional positioning of “when you can’t get a credit card” has given way to “the alternative to checking accounts” and is targeted at a much broader audience spanning the credit spectrum
Digital payments hub – digitised money¹ 	<ul style="list-style-type: none"> • Single hub for depositing and payment needs <ul style="list-style-type: none"> – Top up through linking to bank/debit card or top up with cash at the Post Office – Send money to friends/family, withdraw cash from Post Office, pay bills and integrate other payments propositions e.g., MoneyGram • Potential to widen into digital wallet e.g., with driver’s license details also uploaded • Clear market precedent e.g., Moven
Expansion of loans for low income	<ul style="list-style-type: none"> • 1.1m UK low income households need credit but are unable to borrow; more generally real wages remain depressed vs. pre-crisis levels • Growing interest e.g., LBG offering smaller loan sizes for shorter repayment periods
Acquisitions	<ul style="list-style-type: none"> • Exploring opportunities to acquire good quality books of business, particularly in the General Insurance market to improve scale and associated margins • Post Office could seek to acquire Bol’s share in FRES which would allow Post Office to capture the entirety or the FRES dividend (c. £35m pa), make use of tax losses and unlock other corporate foreign exchange potential (Project Bounty)
Banking services utility play	<ul style="list-style-type: none"> • As banks continue to rationalise branch, Post Office is increasingly becoming the only branch access point for customers.

1 Potential to expand on significant work already completed on digital postal orders (POGO) 2 Who may prefer not to share financial details

Source: ‘Consumer credit and consumers in vulnerable circumstances’ FCA April 2014

The FS strategy, in particular the development of Titan/ POMS, provides Post Office with a number of choices ahead of the expiry of the Bol contract

DISCUSSION DRAFT - EXCO ONLY

FOR DISCUSSION



Near term focus

- Deliver of FS strategy
- Build capabilities and bed down the operating model
- Achieve effective risk management and governance

Keeps strategic options open



Strategic options available

Post Office will need to decide in 2019 how it will proceed in 2023:

1. Exit FS
2. Continue as is
 - a. With Bol (renew/extend contract in 2023)
 - b. With a different bank partner
3. Form JV with banking partner, potentially with an option to buy partner's stake in a few years
4. Pivot to a purer distributor model with multiple partners
5. Increase ownership and control by building own balance sheet



Contents

- FS starting position and context
- FS vision under current Post Office's operating model
- Post Office FS 2020 revenue plan
- **Building blocks to achieve 2020 Vision**
- Alternative scenarios reflecting TOM cost challenge
- Key milestones and next steps

Achieving the vision and delivering the 2020 Vision will require 4 building blocks & 8 strategic activities



	Overview	Strategic activities
Customer	<ul style="list-style-type: none"> • Mass market customer base with natural affinity with low income, more branch-centric or older customers • New products attracted a different customer base that is younger and more price sensitive 	<ol style="list-style-type: none"> 1 Clear portfolio of target segments
Product	<ul style="list-style-type: none"> • Enhanced economics & deeper customer knowledge by moving up value chain in specific business areas • Integrated propositions that link several products e.g., Travel, Home, Over 50's • Innovative payments concepts to partially offset decline of traditional business e.g., SME, PPD 	<ol style="list-style-type: none"> 2 Winning proposition development 3 Moving up the value chain
Channel	<ul style="list-style-type: none"> • Digitized customer journeys across all channels • Shift from counter as sales channels to lead generator, with in-branch F2F sales with specialist advisors • New remote capabilities including outbound calling, web-chat • Enhanced online capability 	<ol style="list-style-type: none"> 4 Hub & spoke distribution model
Capabilities, dependencies and risks	<ul style="list-style-type: none"> • Capabilities: Integrated CRM system and POS; sales, marketing & brand capabilities including launch of FS Money sub-brand, and improvement of advisor productivity through training & recruitment support • Dependencies: Network and capacity for Hub & Spoke sales model; commercial support e.g., Customer Management Roadmap; wider functional support e.g., product P&Ls • Risks: Partner, conduct and key programmes e.g., Hawk 	<ol style="list-style-type: none"> 5 More visually distinct PO Money brand 6 Marketing 7 FS people development 8 Technology & analytics



Customer: Key insights

Overview of customer needs

► Implications for Post Office Money

Customer

- Historically broad based mass market offer, with strengths in older, low income and branch-loving segments e.g.,

Product

- Better performance in urban deprived and urban inner deprived areas
- Traditional payments products target un-banked and under-banked segments
- Spike in older segments for some Personal Lines products; most loyal customers also tend to be older and less well off females by a significant margin

Channel

- Exception is Travel Money, which has targeted younger segments
- Recently, new products have enabled FS to extend into new segments

Capabilities, dependencies & risks

- Different customer profile for mortgages focused on price-driven, online savvy and younger customers
- Online loan proposition has targeted higher income customers

- Need for mass market coupled with multi-segment approach
- FS to go deep on a portfolio on customer segments, which are currently under-served or where FS has product specific aspirations e.g.,
 - Over 50's e.g. Silver Foxes, Lavender Scented, Ruby Weddings
 - Women e.g. Pink Fizz, Lavender Scented, Ruby Weddings
 - Low income e.g. Lavender scented, under banked/un banked
 - Younger first time buyers e.g., Golden Boys



Customer: FS tends to do well in less affluent areas

Payments Banking Services Travel Personal Lines - banking Personal Lines - insurance

Volume of products by branch location¹

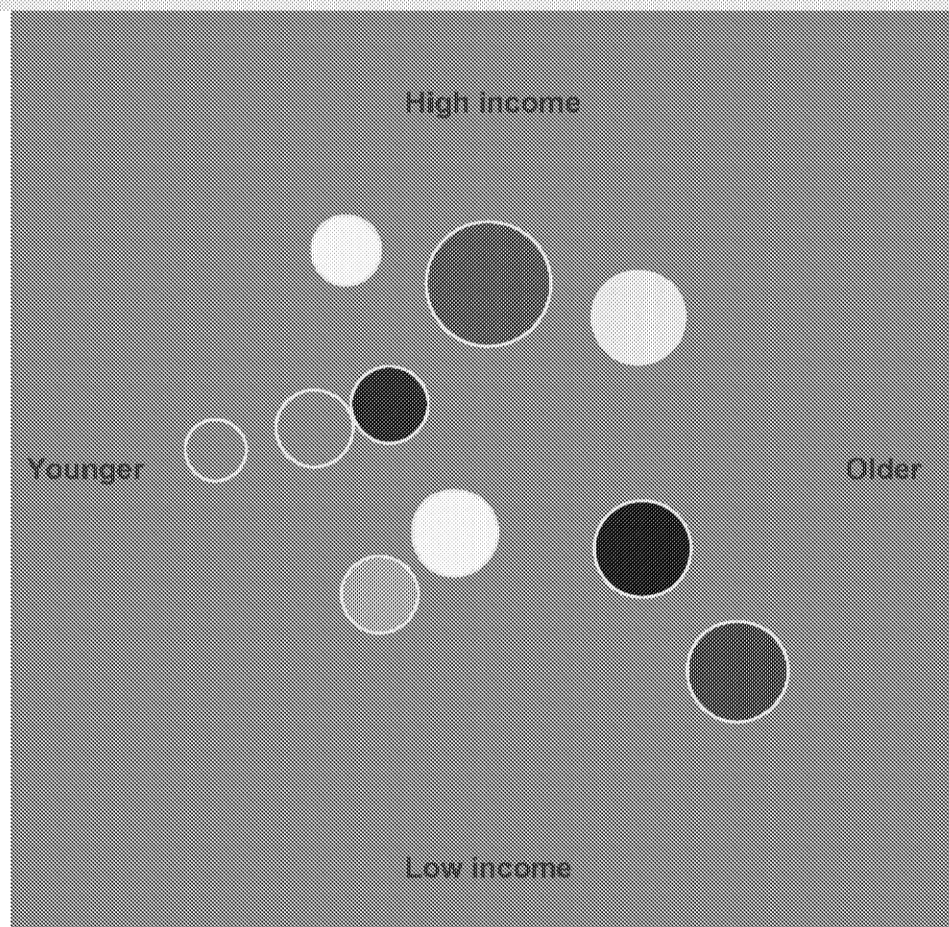


1 Includes data on 11536 Branches 2 This is likely to be an underestimate, as it does not take into account income from previous 'back book' sales
Methodology: Income is calculated from volume numbers. The volume in each store is multiplied by a constant dollar value estimate of the value of each transaction
The value of each transaction is assumed to be the same across the different locations; testing suggests this holds to within ~10% for the three products we tested (Savings, Travel Insurance and Home Insurance)
Source: MI team

Customer – Personal Lines: FS has implemented a customer segmentation that reflects consumers' financial needs



Overview of segments



- Green Shoots:** Under 25yrs; many single and living with parents; frequently use ATMs, many have student loans. 3.9 adults.
- Pink Fizz:** 25-45, often single people, propensity to London; many have mortgages, borrow not save, use online banking. 5M adults.
- Golden Boys:** Upwardly mobile men aged 25-45, high earners; majority have mortgages, manage finances remotely. 3.9M adults.
- Red Brick:** Well-educated 25-45 year old women; mostly home owners with Mortgages and higher than average household incomes. 4.4M adults
- True Blue:** 45-55 year old couples and families. Incomes are usually over £75,000. 6.2M adults.
- Grey Days:** Single or separated, typically aged 35-55. The incidence of unemployment, or people unable to work, is three times higher
- Plain Vanilla:** 25-55 years, over half have no plans for their retirement or expect to rely on the state pension. 3.7 M adults.
- Silver Foxes:** Over 55, majority are retired. Concentrated in London and the South East. Households earning over £100,000 is high. High levels of savings and investments. 5.1M adults
- Ruby Wedding:** Older married people who have paid off their mortgage. Household income £20,000 to £30,000. 4.8M adults
- Lavender Scented:** Older people often over 65. Often living alone. Income typically £10,000 pa. 6.9M adults.

Customer – Personal Lines: Strengths in older branch loving segment but new products have attracted new segments e.g., Mortgages

DISCUSSION DRAFT - EXCO ONLY



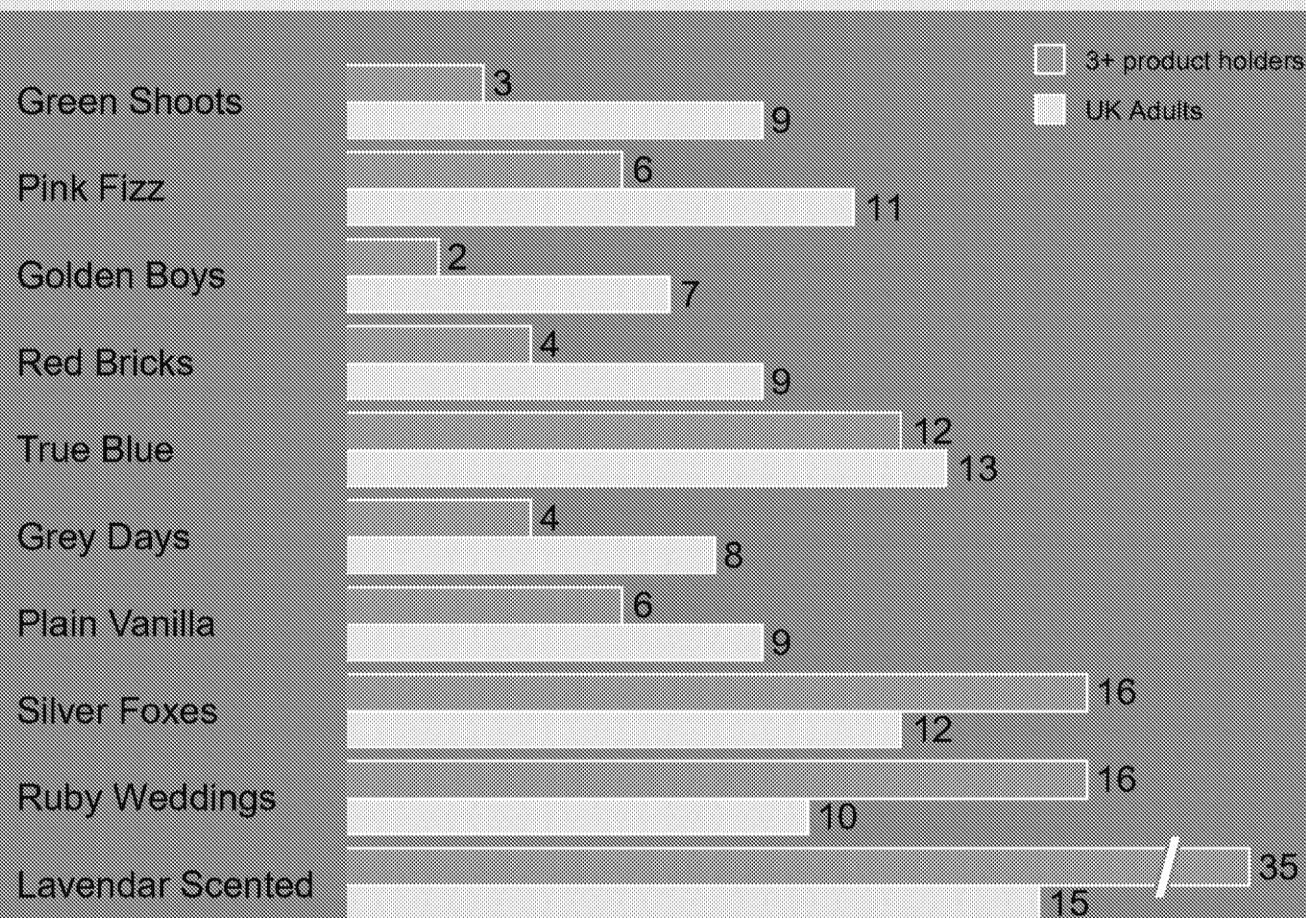
Fresco Segment Description	Savings			Mortgages		Credit card std		Car insurance		Loan	
	Online Saver	Premier Cash ISA	Index	Distribution	Index	Distribution	Index	Distribution	Index	Distribution	Index
(Missing)	3%	18%		4%		3%		10%		1%	
Green Shoots	3%	3%	100	2%	26	3%	37	2%	26	2%	23
Pink Fizz	13%	8%	61	18%	175	12%	114	9%	82	13%	124
Golden Boys	6%	3%	47	18%	223	4%	45	3%	36	8%	98
Red Brick	6%	4%	56	15%	158	8%	82	7%	72	13%	136
True Blue	21%	14%	68	20%	154	15%	112	15%	118	25%	187
Grey Days	3%	2%	78	2%	32	5%	72	5%	63	4%	52
Plain Vanilla	6%	4%	77	7%	91	10%	125	8%	104	11%	145
Silver Foxes	24%	21%	85	7%	67	14%	125	15%	134	11%	98
Ruby Weddings	10%	12%	122	3%	31	13%	126	13%	131	9%	88
Lavender Scented	6%	12%	206	3%	18	15%	104	14%	98	4%	29
	100%	100%		100%		100%		100%		100%	

DISCUSSION DRAFT - EXCO ONLY

Customer – Personal Lines: Those with highest cross-product holdings tend to be older and less well off



Product holdings of Post Office Money customers vs. UK adults



Key takeaways

- Post Office Money is successful at cross sell to the older, female demographic in Lavender Scented, Silver Foxes and Ruby Weddings
- These three segments span low to high income groups, indicating that success is driven more by appeal to an age group as opposed to pure pricing
- Lack of cross sell for lower income segments like grey days and plain vanilla is particularly poor given the like-hood of multiple F2F touch-points in branches



Product: Key insights

Overview

➤ Implications for Post Office Money

Customer

Product

Channel

Capabilities,
dependencies & risks

- Each product category plays a **unique** role within the portfolio
 - **Payments** contribution to total income is **declining**; key requirement will be to guard share via improved convenience / opening hours (network extension) and building new capabilities in digital payments; business also **drives footfall** to branches
 - **Banking Services** has **lower EBITDA margin** compared to other product lines, with profitability varying significantly by sub-segment; category also **drives footfall** to branches
 - **Personal Lines** is **core growth engine** for business, almost doubling share of total income going forward
 - Within Personal Lines, **current product propositions require further development** terms of price or non-price dimensions e.g.,
 - Price: Competitive within panel but not vs. market leaders
 - Non-price: Products do not have clear differentiated features as recognised by independent ratings firms
- In its **traditional business**, Post Office Money should continue to be a strong player and **selectively innovate**
 - Development of **compelling, customer-first propositions** (e.g., cards)
 - Explore utility service offering for banks
 - Create digital / electronic extensions to products (e.g., electronic postal orders)

HIGHLY PRELIMINARY WORK IN PROGRESS



Product: FS has 4 major product categories

	Payments	Banking services	Travel	Personal Lines
Description	<ul style="list-style-type: none"> Traditional business that is in decline (e.g., Bill Payments had a -4.3% CAGR from 2010/11-2013/14) Growth of MoneyGram (particularly given newly negotiated terms) slows overall category decline 	<ul style="list-style-type: none"> 3rd party services for customers of other banks e.g., cash withdrawals, deposits Personal banking growing to 2020 (e.g., 4% CAGR for personal banking, and general spend card launch) but business in decline (e.g., -13% CAGR for Change Giving) 	<ul style="list-style-type: none"> JV to provide travel money with FRES which includes both a commission and profit share Solid ~25% market share expected to continue in a broadly flat market Travel Insurance proposition in partnership with Bol 	<ul style="list-style-type: none"> Core growth engine for Post Office Comprises of Banking (e.g., savings) in partnership with Bol and Insurance products (excl. Travel) Project Hawk can allow Post Office to buy out Bol share and grow proposition significantly
Share of FS income, %	<div>27</div> <div>19</div> <div>2013/14</div> <div>2019/20</div>	<div>29</div> <div>19</div> <div>2013/14</div> <div>2019/20</div>	<div>22</div> <div>19</div> <div>2013/14</div> <div>2019/20</div>	<div>23</div> <div>43</div> <div>2013/14</div> <div>2019/20</div>
Margin, %¹	<div>DPC</div> <div>61</div> <div>EBITDA</div> <div>12</div>	<div>48</div> <div>3</div>	<div>64</div> <div>35</div>	<div>86</div> <div>58</div>

1 Based on 2014/15 full year budget

Source: Product P&L's Period 3; team analysis

DISCUSSION DRAFT - EXCO ONLY

Product: In future, FS will develop product packages tailored to specific customer needs

HIGHLY PRELIMINARY
WORK IN PROGRESS

Example: Developing an integrated credit card proposition

Customer and market research underpins a product strategy that caters to customer needs and leverages Post Office strengths

- Recognition that Post Office's current single product remains too broad to effectively target a heavily segmented market

- Multiple products developed to provide better coverage of the market, and target different Post Office customers

TESCO Price sensitivity 	 2in1 card Able to equip people with optics. They may not plan to borrow or spend but it's reassuring knowing they have a 0% there Matched: flexibility	 Balance transfer card A card that helps astute people save money as well as giving extra savings through 0% purchases 0% BT: Smart cost saving
	 Travellers reward card Enhanced travel product not just focused on the spend abroad. Supplemented by rewards element to drive better everyday usage Rewards: Value-add	 Low rate everyday card In line with brand associations, the low rate product provides a peace of mind/confidence in a product that won't bite Low rate: Simplicity & clarity





Cautious

Indebtedness

converters

- Products integrated with additional Post Office offerings that match with customer outcomes where possible e.g. Travel Money, Savings etc

The resulting proposition has a clear target customer, and scope to leverage wider Post Office propositions

Propositions		Headline						Commercial						Card management approach
Borrower		<ul style="list-style-type: none">Pulse In and out month 0% BT market2.98% BT feeStraight forward borrower proposition						<ul style="list-style-type: none">Scale productMitigates interchanges						
		Age						Income (K€)						
		18	25	35	45	55	65+	10	20	40	60	80	100+	
Flexible		<ul style="list-style-type: none">Matched 0%Spread the cost of larger purchaseRepeat offer rates						<ul style="list-style-type: none">Everyday appealTarget offering						
		Age						Income (K€)						
		18	25	35	45	55	65+	10	20	40	60	80	100+	
Everyday		<ul style="list-style-type: none">Low rate APRNo BT feeSingle low rate from application, no 0% promo						<ul style="list-style-type: none">Everyday appealTarget offering						
		Age						Income (K€)						
		18	25	35	45	55	65+	10	20	40	60	80	100+	
Travel rewards		<ul style="list-style-type: none">0% FX plus travels rewardsLeverage PO assetsValue add offerings- lounges/upgrades						<ul style="list-style-type: none">Leverage PO brand/basesDeepen loyalty						
		Age						Income (K€)						
		18	25	35	45	55	65+	10	20	40	60	80	100+	
														<ul style="list-style-type: none">Typical entry products, optimise viaSpend stimulationCredit limit changesPromotional ratesBack book / additional BTsReprices
														<ul style="list-style-type: none">Targeted up-sell to more engaged productsDeepen product and brand engagementGrow ATVs & category usageX-sell additional fee bundlesReprices

Source: Credit Cards: Market & Segment Approach 2014-18



Channel: Key insights

Overview

▶ Emerging channel strategy

Customer

- While FS is in line with market in that online is set to become increasingly important, **branches** remain a **critical channel** for driving sales at 58% of total income in 2019/20. The most significant **channel shifts** occur within the **Personal Lines** category
 - **Insurance**: Increasingly **digitising** with up to 80% of new sales online
 - **Banking**: Shift towards **branch** caused by new branch-heavy products (e.g., Mortgages, current account); within the branch channel, these are largely delivered via F2F advisors and rely less on counter sales

Product

- **Banking**: Shift towards **branch** caused by new branch-heavy products (e.g., Mortgages, current account); within the branch channel, these are largely delivered via F2F advisors and rely less on counter sales

Channel

- Moving forward, the **role** of each channel is set to **evolve** given **new technologies**, with an ambition to maximise sales productivity via enhanced data capture at front-line, remote VC capabilities and self-serve for simple products
- The **F2F staff** are a critical component of the physical distribution and while today they do **not break even**, the business has a **path** to helping them get there
 - **MSS**: New hires at higher performance
 - **FSS**: Achieving required productivity will require investment of £5m to £10m

Capabilities, dependencies & risks

- **Branches**: Aspiration is to move to a **hub & spoke distribution** model, where customers can access financial services advice even when a specialist is not located in their closest branch
- **Contact Centre**: Plan to create **outbound calling** capability driven by data capture in tail branches; also plan to manage more inbound calls to drive **cross-sales** (Titan)
- **Online**: Aggregators will remain the key channel for Post Office online sales in insurance, but ambition is to drive increasing traffic to our website and create optimised customer journeys to drive conversion

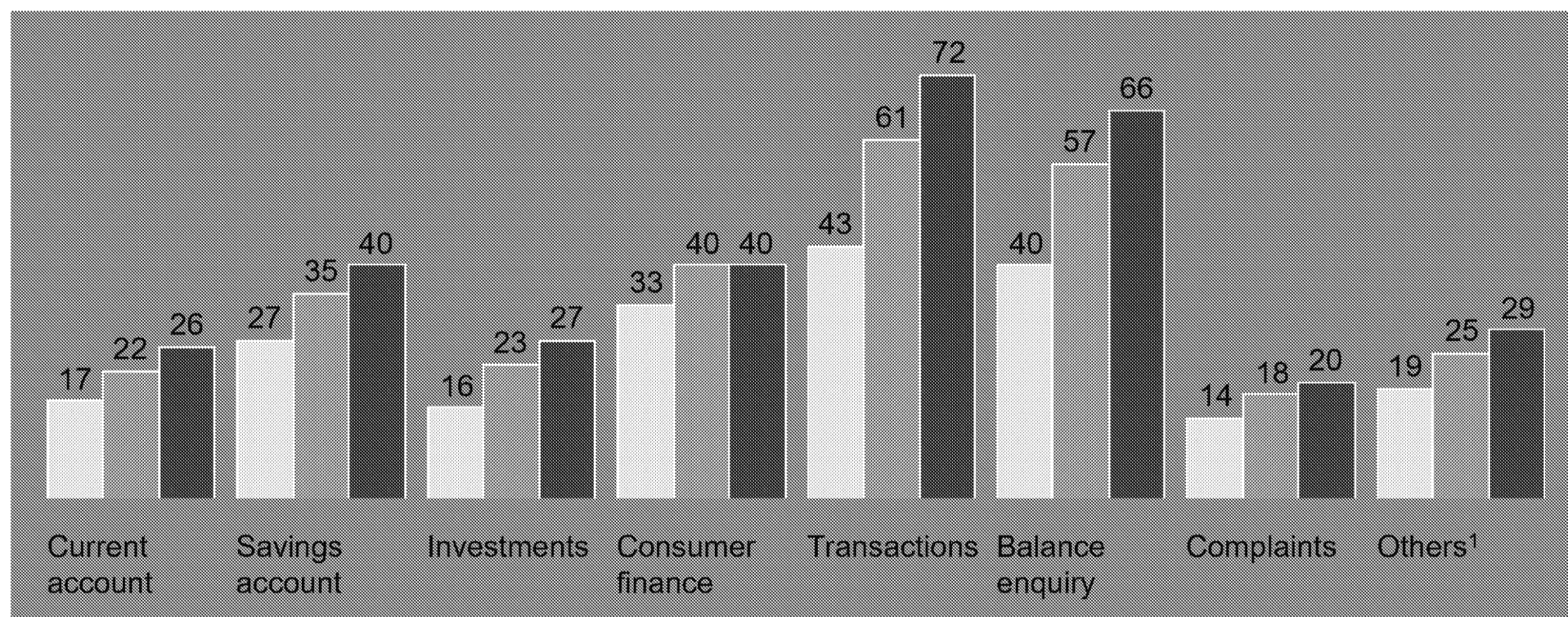
Channel: Market data suggests share of online to rise but branches will continue to have a role, esp for advice & value added services

DISCUSSION DRAFT - EXCO ONLY



Share of online sales, %

2013 2017 2020



¹ Includes resolving a problem, change account details

Source: McKinsey multichannel survey: regression model

BASED ON ORIGINAL 2019/20 PLAN REVENUES

Channel: FS is line with where the market is headed; while share drops, branches remain central to approach

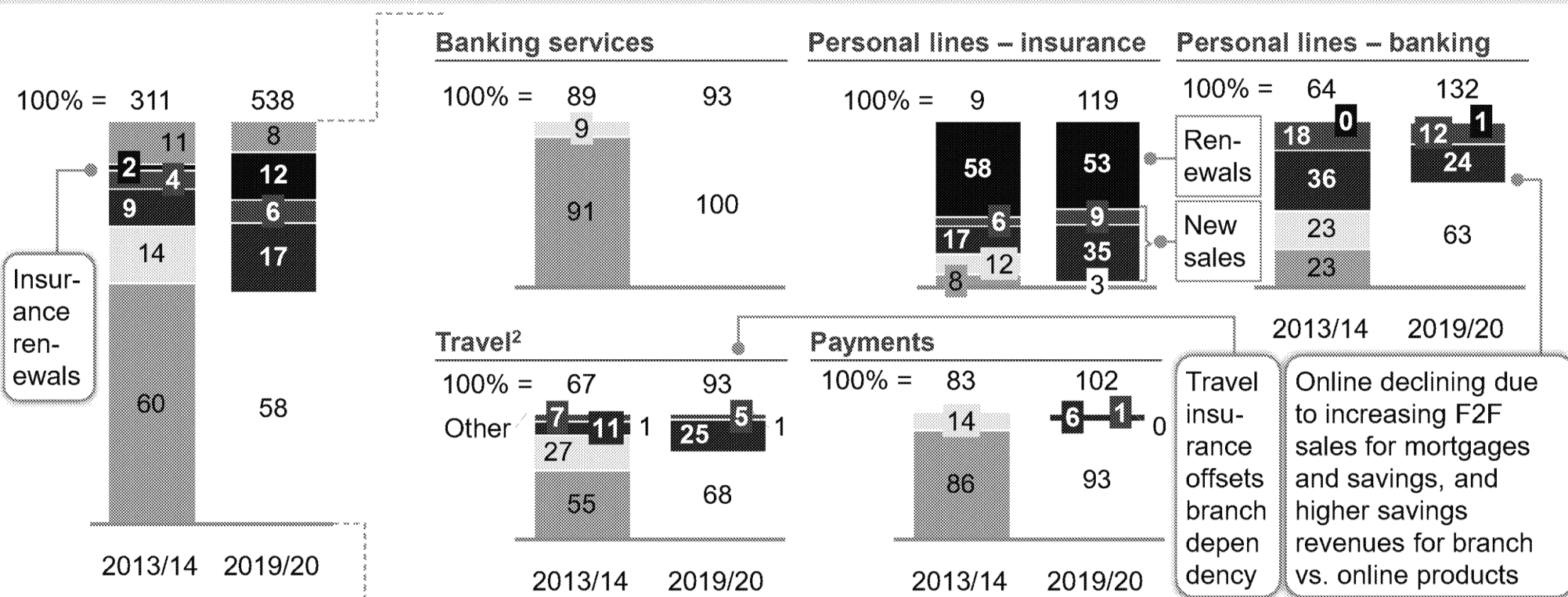


■ FRES ■ Other ■ Contact centre ■ Online ■ Branch - Crown ■ Branch - Agent

Total branch
(2019/20 only)

Overall distribution change¹
Share of income (£m), %

Overall distribution change by business area¹
Share of income (£m), %



¹ Shares calculated through excluding fixed revenue streams- refers only to revenue directly generated through channels

² Shares based sales splits, total revenue includes FRES; includes travel insurance

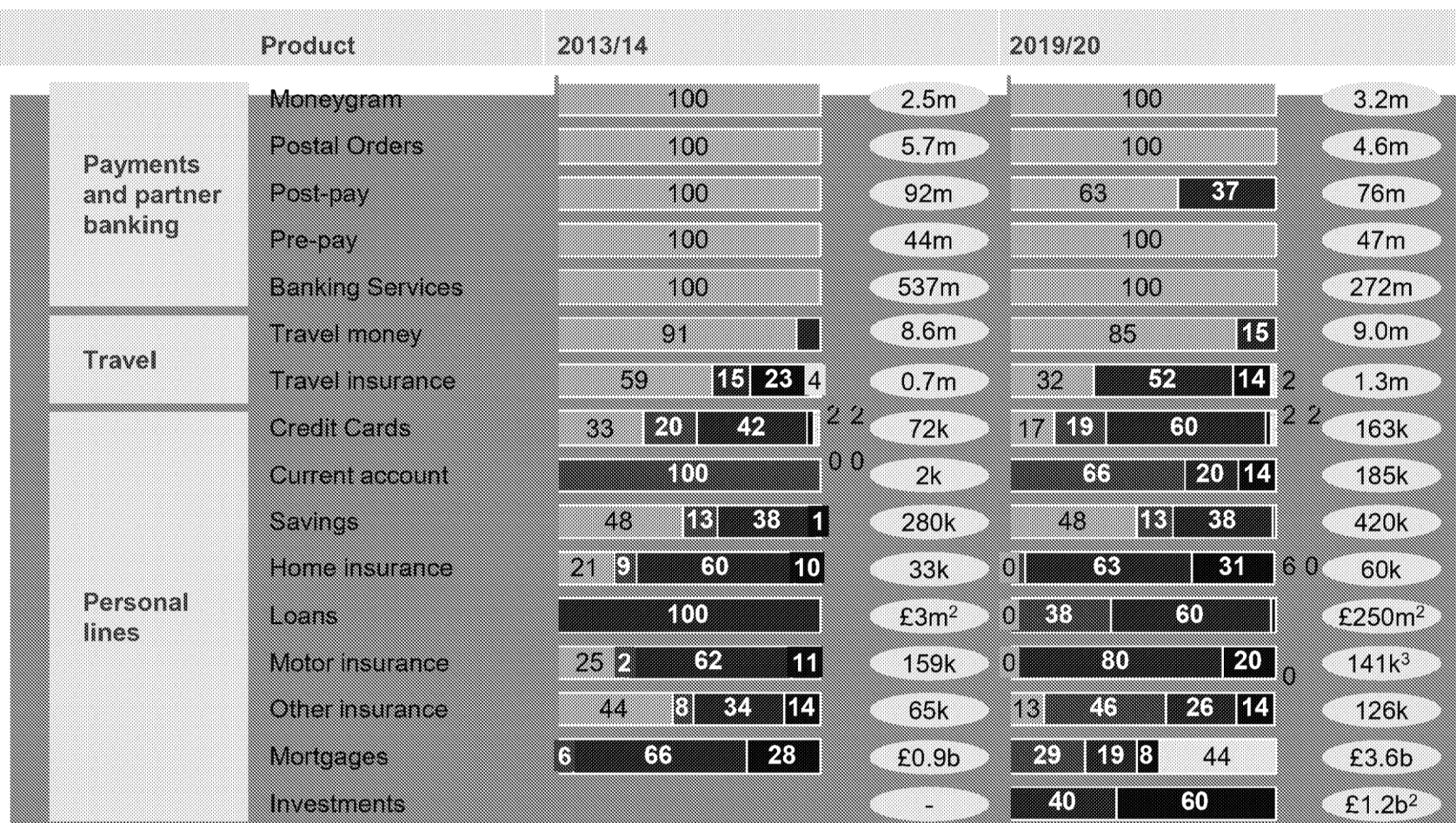
Source: Financial Services Template v3b_entire business; updated distribution splits from product teams; POL 2020 strat plan; team analysis

DISCUSSION DRAFT - EXCO ONLY

Channel: Insurance increasingly digitising but new Personal Lines Banking products require greater F2F capability



Split of new sales volume by channel (% volume)¹ ■ Counter¹ ■ F2F ■ Online ■ Contact centre ■ Other x # sales (volume)



1 Counter includes branch referred sales completed online/callcenter where FAD code given by customer

2 Front book value

3 2013/14 insurance sales were one off spike for Motor

Channel: FS' channel strategy is evolving with changing customer needs while maintaining competitive advantage



Channel Income ¹	From	To
Branch counters 2014: £225m 2020: £278m	<ul style="list-style-type: none"> Focused on processing payments for tradition business Sales of simple products via paper applications + life insurance Low rate of counter referrals to specialists (~13%) 	<ul style="list-style-type: none"> Front-line focused on data capture and referrals via simple tools to enable rapid form filling and/ or instant setup via apps Greater use of self-serve; limited use of paper applications Fulfillment of some simple products (e.g., Savings), Travel Money and Travel Insurance
Branch specialists² 2014: £5m 2020: £33m	<ul style="list-style-type: none"> Growth and stabilisation of new F2F network, with initial focus on delivering higher quality standards Significant variance in sales performance between top and bottom performing sales staff Performance based incentive systems partially implemented (completion subject to final Trade Union agreement) 	<ul style="list-style-type: none"> Improved FS productivity, closer to market average Significant proportion of leads to specialist advisers driven through 'hub and spoke' model FS to pair up with MS, where practical, to maximise x-sales Incentive schemes embedded as a core element of a customer-oriented culture
Remote / Telephony 2014: £14m 2020: £26m	<ul style="list-style-type: none"> Inbound telephony (~10-15% of insurance sales) with outbound pilot underway Limited service to sales functionality given no ownership of inbound call center Videoconferencing trial underway 	<ul style="list-style-type: none"> Increased use of remote VC / web chat capabilities for sales of complex products e.g., mortgages, life Outbound telephony for warm leads from counter & data analytics Service-to-sales to drive cross-sales following move up value chain for insurance sales
Online / mobile 2014: £28m 2020: £84m	<ul style="list-style-type: none"> Limited website functionality – e.g., not all products available online, room to improve customer journeys, especially cross-sell Reliance on aggregators to drive volume for Personal Lines insurance products Credit card process the sole example of a digital application process applied in branch 	<ul style="list-style-type: none"> Simple website tailored to customers based on browsing behaviour; full suite of products available for sale PO Money homepage with single sign on; leads from main site Full product details for insurance & investments. Simple digital customer journeys accessible through multiple channels (including F2F) with embedded cross-sell options Selective use of aggregators to raise brand awareness and deliver volume targets; however, increased focus on own website

¹ Excludes Other Income: 2014: £32m; 2020: £41m (Mortgage intermediaries, FRES, insurance renewals); branch walk-through

² Excludes impact of leads generated by FS & MS but executed in order channels

Channel: Each channel will play a specific role across the customer decision journey



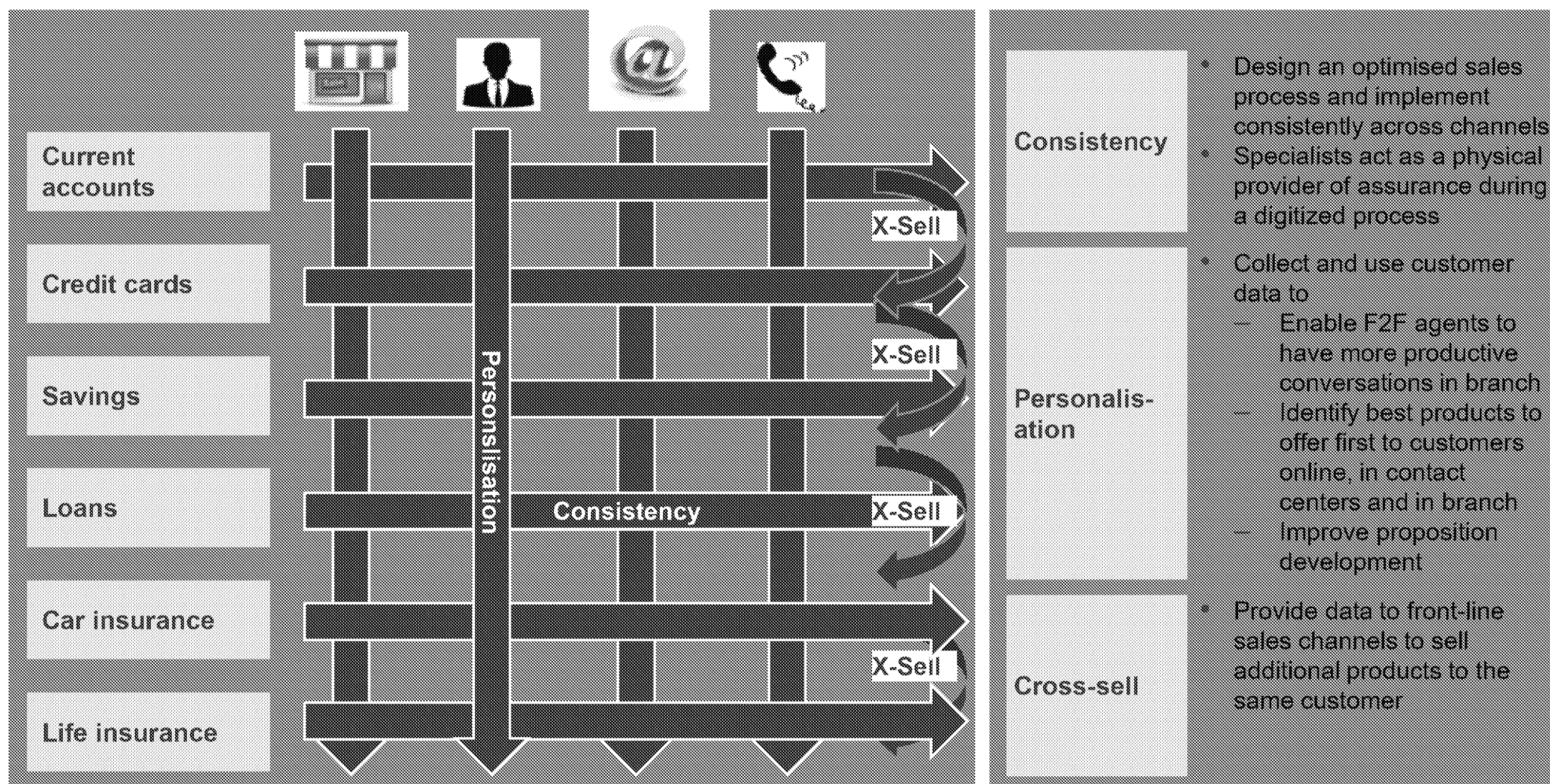
	Lead generation	Customer conversation	Sales fulfillment	Post sales support	Main channel is bolded
Current account	<ul style="list-style-type: none"> Branch used to generate awareness via leaflets Limited online advertising CRMs¹ 	<ul style="list-style-type: none"> FS Inbound calling Web-chat CRM¹ 	<ul style="list-style-type: none"> FS to remain primary sales channel Online also plays a roll CRMs¹ 	<ul style="list-style-type: none"> Primarily via remote channels but counter / ATM used for basic transactions 	
Mortgage	<ul style="list-style-type: none"> Price comparison tables and aggregators In-branch materials 	<ul style="list-style-type: none"> MS Inbound calling 	<ul style="list-style-type: none"> Online MS 	<ul style="list-style-type: none"> Remote support 	
Travel Money	<ul style="list-style-type: none"> ATL spend In-branch materials Counter staff 	<ul style="list-style-type: none"> Counter staff 	<ul style="list-style-type: none"> Counter staff Some click and collect online 	<ul style="list-style-type: none"> TMC: Top-ups primarily online 	
Loans	<ul style="list-style-type: none"> CRMs¹ Online aggregators Counter staff 	<ul style="list-style-type: none"> FS Inbound calling Web-chat 	<ul style="list-style-type: none"> Primarily online Small share of FS sales 	<ul style="list-style-type: none"> Remote support 	
Savings	<ul style="list-style-type: none"> CRMs¹ Online aggregators Counter staff 	<ul style="list-style-type: none"> FS Inbound calling Web-chat CRM¹ 	<ul style="list-style-type: none"> Primarily counters Online and FS also key CRMs¹ 	<ul style="list-style-type: none"> Remote support 	
Motor / home	<ul style="list-style-type: none"> Price comparison tables and aggregators 	<ul style="list-style-type: none"> Inbound calling Web-chat 	<ul style="list-style-type: none"> Primarily online CRMs¹/FS 	<ul style="list-style-type: none"> Via call center and DM for renewals 	
Life insurance	<ul style="list-style-type: none"> CRMs¹ FS directly Counter staff 	<ul style="list-style-type: none"> FS MS 	<ul style="list-style-type: none"> Primarily FS for life cover Over 50s at counter 	<ul style="list-style-type: none"> Via call center and DM for renewals 	
Credit cards	<ul style="list-style-type: none"> Price comparison tables and aggregators 	<ul style="list-style-type: none"> Web-chat Inbound calling 	<ul style="list-style-type: none"> Primarily online Some FS sales 	<ul style="list-style-type: none"> Via call center 	

Key principles

- FS to focus on higher value products e.g., life insurance, current accounts, savings accounts & loans
- MS to focus on mortgages but also related sales e.g., home /life insurance
- CRMs to play advisory role but will perform simple introductory sales where no guidance is needed

DISCUSSION DRAFT - EXCO ONLY

Channel: Digital is critical enabler of a consistent cross-channel experience

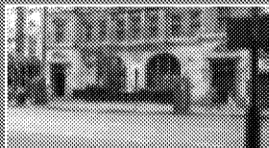






Source: team analysis

DISCUSSION DRAFT - EXCO ONLY

Channel – Branches: Overview of draft Post Office Money Hub & spoke model (1/2)



	Large Mains	Other Mains	Locals ¹	Access Points ²	Community
Current number of branches	 4,000		 4,600	 0	 3,200
Future Description	<ul style="list-style-type: none"> 300-400 'flagship plus' branches acting as specialist advice 'hubs' in high footfall from attractive population segments Total population of 400- 600 specialist advisers Broader physical footprint where customers can access Specialists by video-conference or dedicated day in branch Customer Relationship Managers in ~500 branches to perform simple sales and generate referrals to specialists sales Enabling commission structures between Post Office and agency branches to ensure mutually reinforcing activities across model 	<ul style="list-style-type: none"> Data capture and appointment scheduling with FS specialists at counter No CRMs in branch 	<ul style="list-style-type: none"> Primary role as marketing brochures, with data capture 	<ul style="list-style-type: none"> Payments focus via unmanned kiosks 	<ul style="list-style-type: none"> Data capture for outbound calling
Products available	<ul style="list-style-type: none"> Full Consumer FS, Travel and Payment product range 	<ul style="list-style-type: none"> All payments, and some simple products Complex FS products may require scheduling appointment with 'hub' specialists 	<ul style="list-style-type: none"> Travel Money and Payments 	<ul style="list-style-type: none"> Payments only 	<ul style="list-style-type: none"> Payments only

¹ Includes 'Locals' and 'Locals Light' ² Includes 'Basic Mails +' and SelfService points

Channel – Branches: Overview of draft Post Office Money Hub & spoke model (2/2)



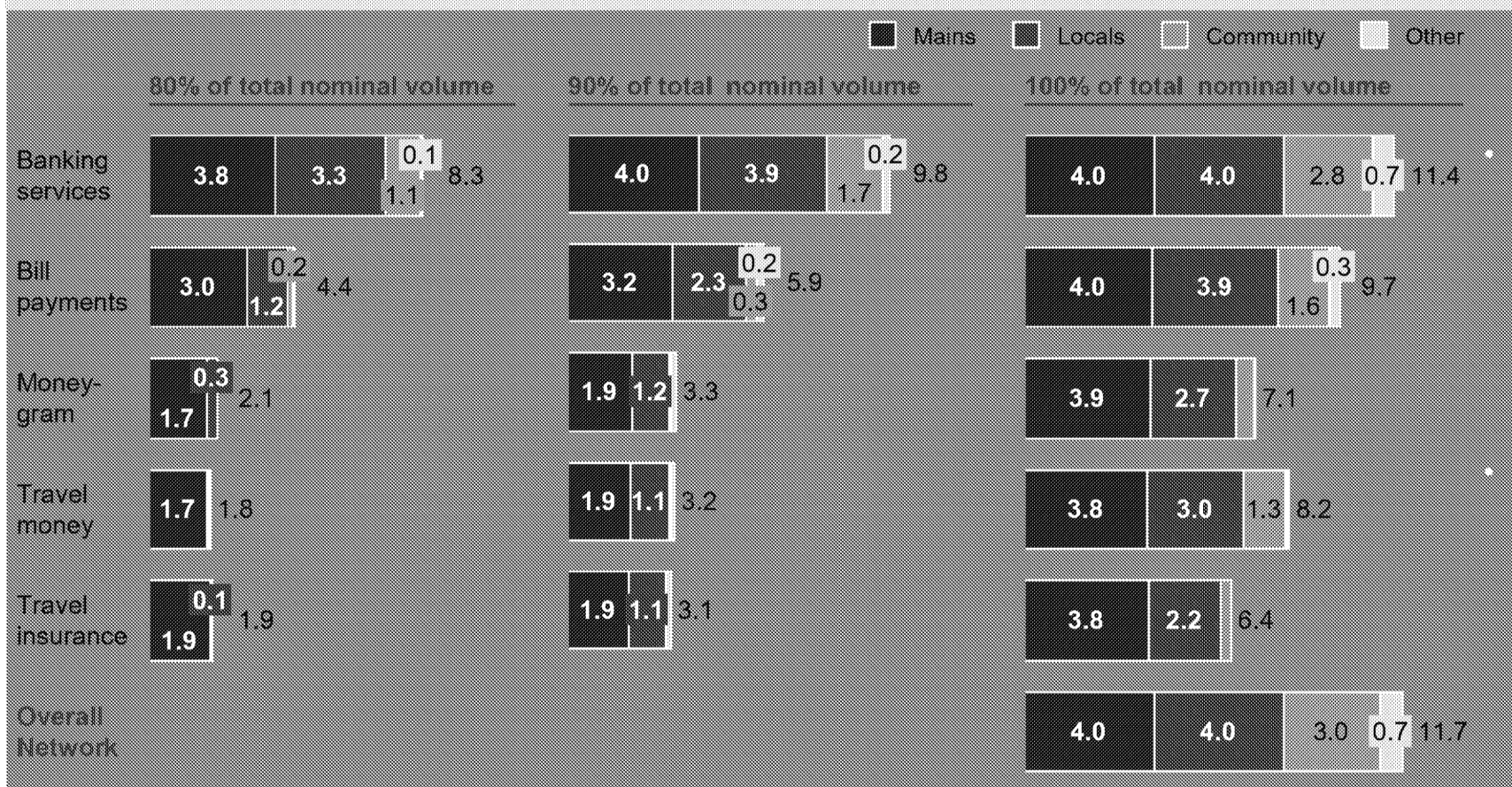
Role type	Description	Products sold	Number in 2019/20	Target productivity
Financial Specialist (FS)	<ul style="list-style-type: none"> • Trained specialists employed and trained by Post Office 	<ul style="list-style-type: none"> • Current accounts • Credit cards • Personal loans • Savings accounts • Life insurance • (Home/motor insurance) 	400-600	<ul style="list-style-type: none"> • 14 per week
Mortgage Specialist (MS)	<ul style="list-style-type: none"> • Trained specialists employed and trained by Post Office 	<ul style="list-style-type: none"> • Mortgages • (Home insurance) • (Life insurance) 	100-200	<ul style="list-style-type: none"> • 4 per month (dependent on location)
Customer Relationship Manager (CRM)	<ul style="list-style-type: none"> • Dual role with branch management • Employed by agents but with some Post Office training 	<ul style="list-style-type: none"> • Mainly lead generation • May sell simplest products (e.g., current/savings accounts; motor/home insurance) 	~500	<ul style="list-style-type: none"> • 4-5 per week (not in numbers)

DISCUSSION DRAFT - EXCO ONLY

Channel – Branches: Counter products have different levels of sales concentration



Branches required to deliver, thousands



- While notionally, payments volume for most products is concentrated within the network, value to customer comes from being able to access accounts from multiple locations
- Scale of network is also a critical part of Post Office value proposition to FS partners

Methodology: For each product, plotted cumulative volume curve and counted the number of branches required to achieve 80%/90% of 2013/14 volume; Compared with required volume increase to achieve 2019/20 plan

Source: Branch data base

DISCUSSION DRAFT - EXCO ONLY

Channel – Branches: A number of personal lines products are sold across a broad proportion of the network



Scale of network is also a critical part of Post Office value proposition to FS partners

Note: Some FS works across more than one branch

Methodology: For each product, plotted cumulative volume curve and counted the number of branches required to achieve 80%/90% of 2013/14 volume; Compared with required volume increase to achieve 2019/20 plan

Source: Branch data base

Channel – Branches: Post Office Money will likely need to both double number of mortgage specialists & drive productivity to reach mortgage targets

DISCUSSION DRAFT - EXCO ONLY

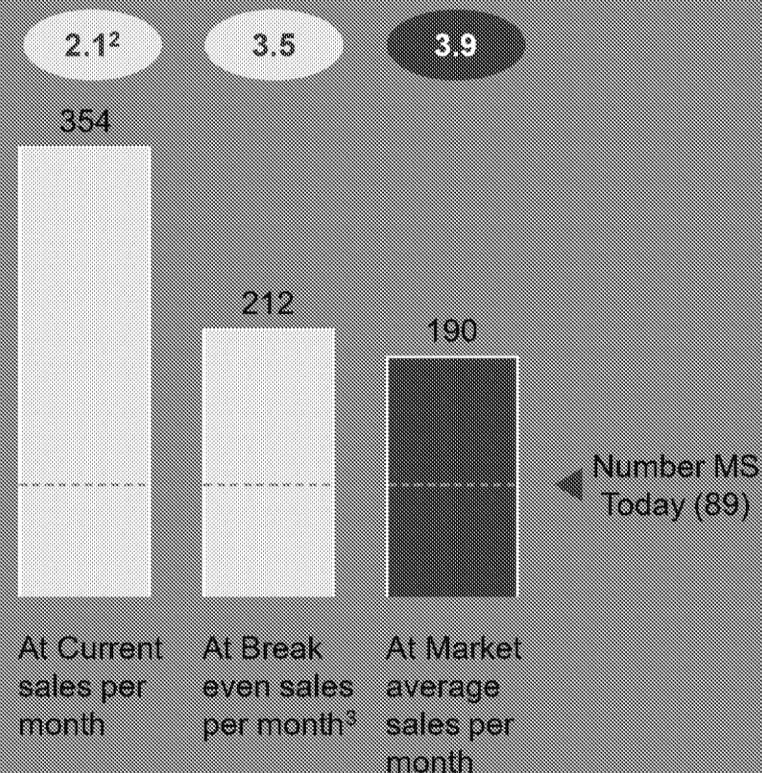


Break even analysis

Break-even transactions per MS specialist per month¹,



Number of mortgage specialists required to meet 2019/20 target, based on their *monthly* productivity⁴



1 Average income per product is £1050 calculated at 60bps on average mortgage value of £ 175k

2 calculated for MS with >0 sales only. Assumes 70% of incomplete applications (marked 'AppSubmitted', 'AppRecieved' 'AppReferred' 'AppOffered') convert to completion since Jan 2013

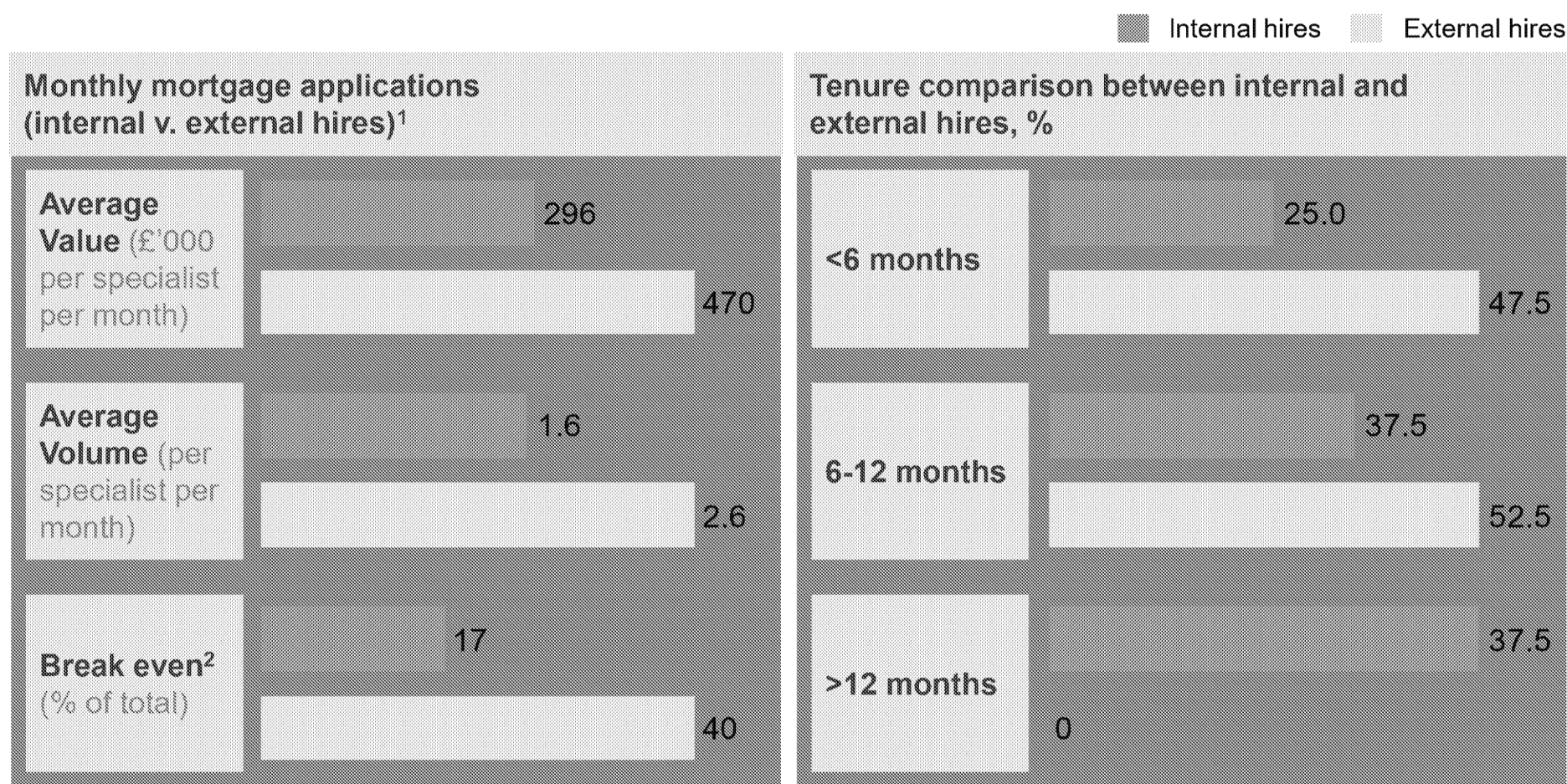
3 Assumes: MS specialist cost to company of £43,480 – average salary = £27600, Cost to company additional 30%, average rent per sp ecialist £450per month, certification costs £2200 per year

4 Includes 20% uplift given downtime for training, holiday and sick days

Source: Team analysis

DISCUSSION DRAFT - EXCO ONLY

Channel – Branches: Recent external hires achieve a higher average value & volume than internal hires



¹ All applications in progress that have not been declined or dropped are included here AIPs (Agreements in principle) that have been referred are included

² Assumes: MS specialist cost to company of £43,480: average salary- £27600, cost to company- additional 30%, average rent per specialist - £450 per month, certification costs - £2200 per year. Commission on mortgages is 0.6% of value

Source: MI team

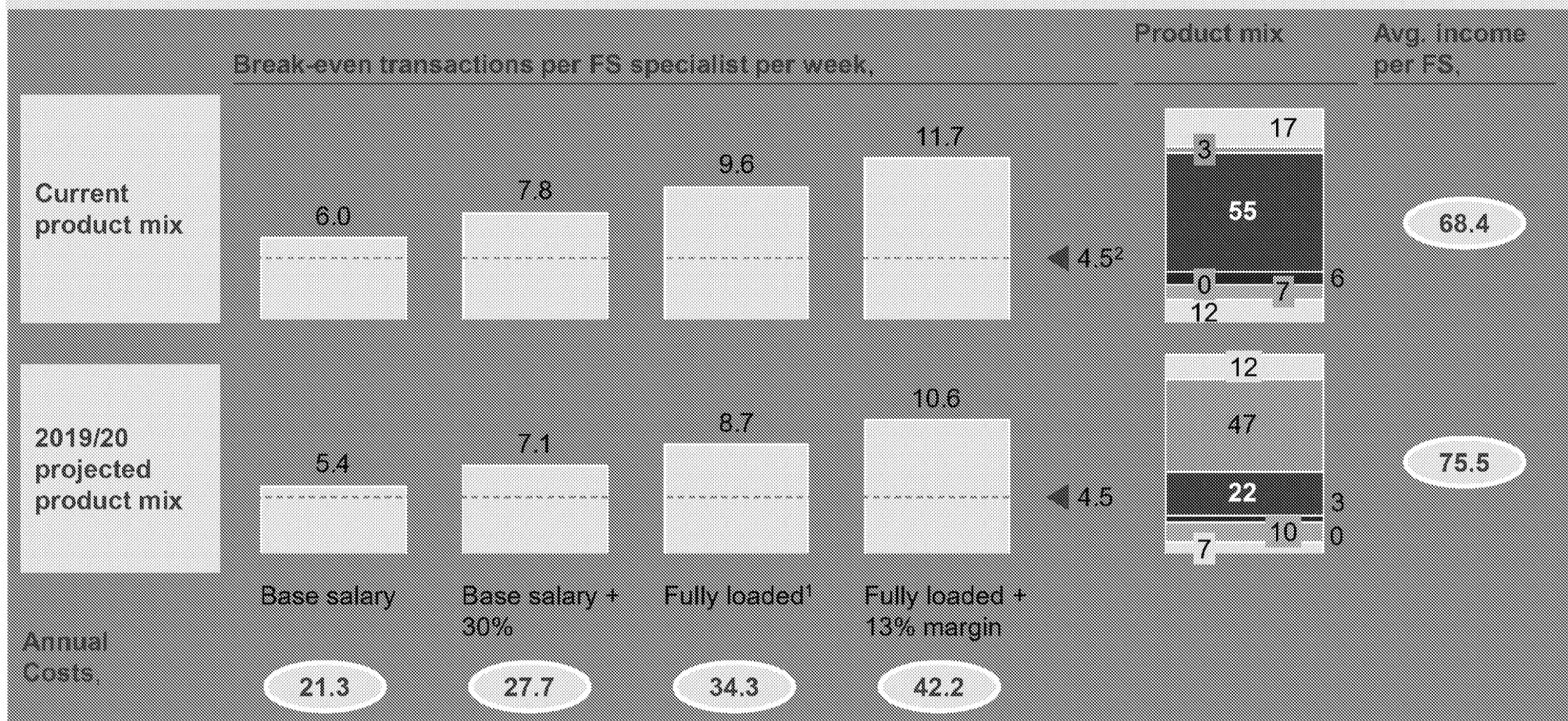
DISCUSSION DRAFT - EXCO ONLY

Channel – Branches: To recover direct costs, FS specialists need to complete ~9-10 transactions per week



Credit Cards
 Current Accounts
 Savings
 Home insurance
 Loans
 Motor insurance
 Life insurance

Break even analysis



¹ Fully Loaded costs include £21k base salary; 30% increase for pension, HR, NI; £1,200 annual sales licence and £450 p/m for realestate
² Average productivity per week for rolling twelve months

Channel – Branches: Achieving planned revenue targets in Personal Lines Banking requires an uplift both in absolute numbers of FS staff & their productivity

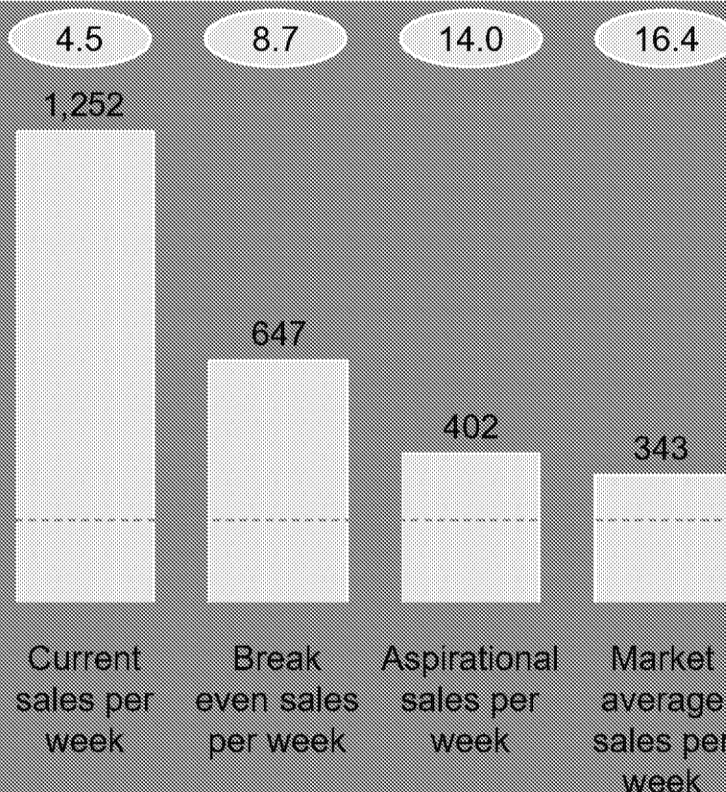
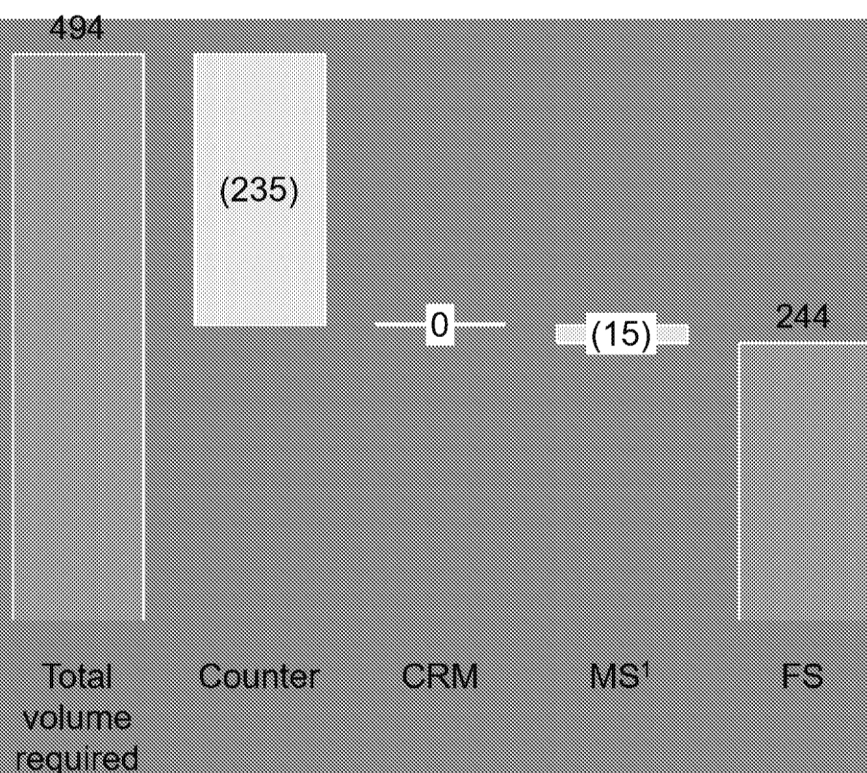
DISCUSSION DRAFT - EXCO ONLY



Required annual FS volume to achieve 2019/20 targets, thousands



Number of FS specialists required to meet target, based on their productivity²



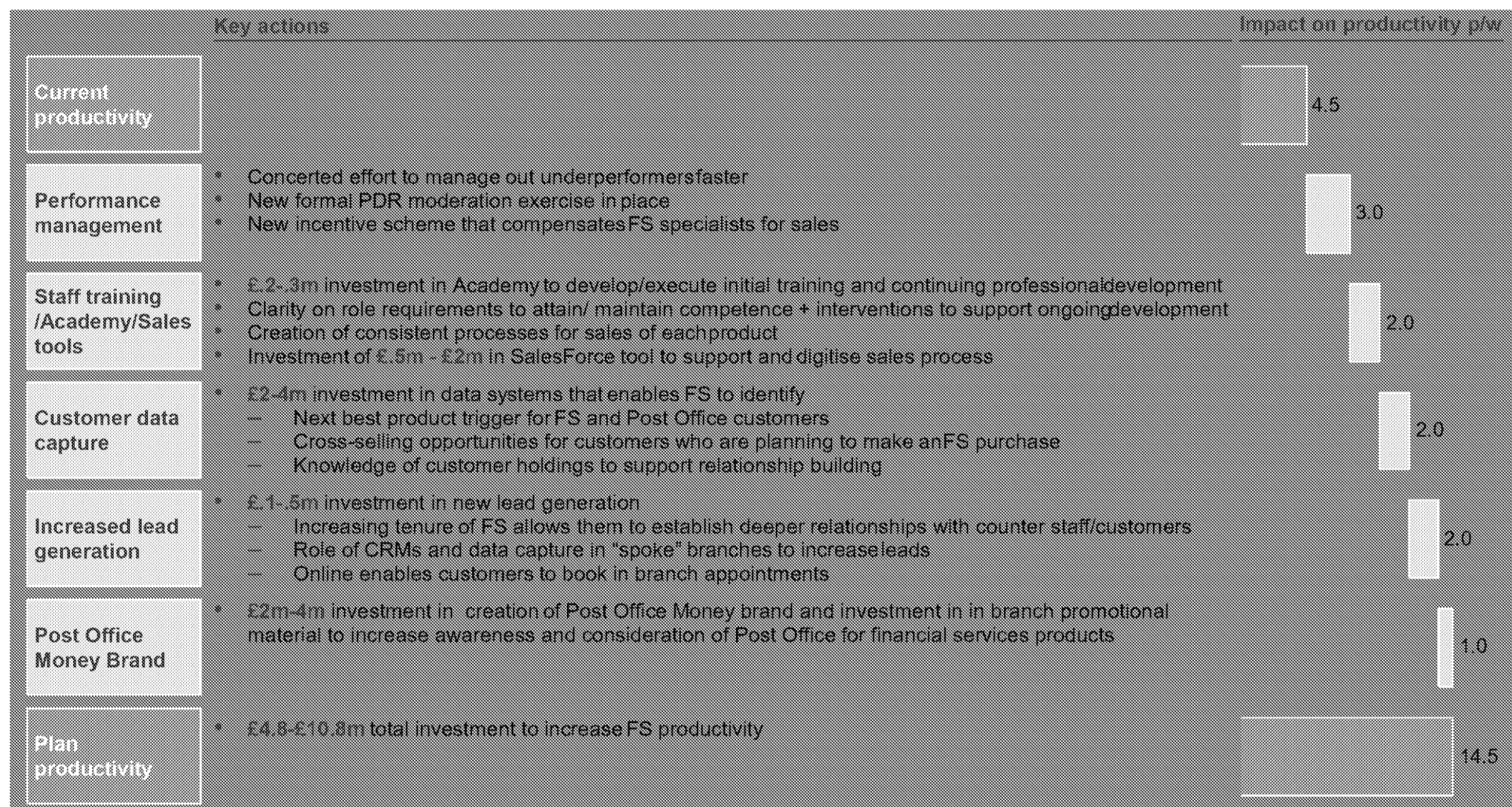
¹ Assumes no increase in FS sales from current 72 MS who also sale financial service products in 2019/20

² Includes 20% uplift given downtime for training, holiday and sick days

Source: Team analysis

DISCUSSION DRAFT - EXCO ONLY

Channel – Branches: Investing over £4m to improve productivity in addition to introducing new CRM system



Channel – Online: Substantial opportunities to improve our online channels to drive sales



Key actions

Lead generation

- 1 Increase brand awareness of Post Office Money online offering (~only 24% of our customers are sure they can do business with us online, versus 53% for average bank)
- 2 Selective use of online aggregators to raise brand awareness and deliver volume targets, particularly for insurance and savings products
- 3 Develop Post Office Money as an online destination for FS products, in order to capture customer data, enable cross-selling opportunities, increase margins
 - Full suite of products available for sale, with full product details for insurance, investments and Forex; simple information (balances) to be available on Bol products with click through for transactional data
 - Invest in simple website tailored to customers based on browsing behaviour

Sales fulfilment

- 4 Create consistent, optimised and simple online customer journeys accessible through multiple channels to drive higher conversion rates (currently 2.6% for car insurance v. 6.6% industry average)
- 5 Convert higher proportion of visitors to Postoffice.co.uk for non-FS related purposes:
 - Post Office Money homepage with single sign on
 - Link from Post Office main site for lead generation (via cookies)
 - Build capability to make most relevant first offer

Channel – Telephony: Contact centres will need to play an increasingly important role



Key roles

Outbound

- 1 Data capture allows for targeted outbound campaigns around event-based products, e.g. car/home insurance
- 2 In “tail” branches where “hub and spoke” is not fully present, counters agents to capture requests for specific products, not available in branch, and schedule outbound calls

Inbound

- 1 Service inbound calls to be directed to partner call centres, in line with current model
- 2 Initially, inbound insurance sales calls to be directed to Titan call center to create opportunities for cross-sell
- 3 Over time, additional products to be added to Titan call centre, with objective to handle all inbound sales calls from one Post Office controlled location
- 4 Post Office also to develop central “web chat” team, to support online sales



Capabilities, dependencies and risks: Capabilities deep-dive

Overview of capability requirements to deliver plan

Customer	Data	<ul style="list-style-type: none">• Improve front line data capture in branches of customer information
Product	New systems	<ul style="list-style-type: none">• Improve data warehousing• Integrate POS and CRM systems to allow a single customer view and enhance lead generation
	Marketing	<ul style="list-style-type: none">• Launch a more visually distinct PO Money brand• Continue annual ATL marketing spend to support growth of new propositions and those we plan to grow aggressively e.g., SME, insurance
Channel	People	<ul style="list-style-type: none">• Introduce incentivisation of counter staff for sales of FS products• Improve sales team productivity to drive personal lines banking products in particular through training and recruitment support
Capabilities, dependencies & risks		



Capabilities, dependencies and risks: Dependencies deep-dive

Overview of key Group dependencies

Customer

**Network /
TOM
dependency**

- Retain branch network to:
 - Support sales of complex products through the Hub & Spoke specialist model, targeting branches with the appropriate footfall/customer mix
 - Support POL's largely cash based payments and banking business
- Invest in online offering which will be central to simple sales and customer servicing

Product

**Ensure POL
Group
provides
suitable
functional
support**

Commercial

- Customer Management Roadmap, incl. Single Customer View
- Marketing investment & support, incl. test & learn new approaches
- CDP: increased control, improved journeys, single customer sign-on Cross-functional product and marketing initiatives, in support of CVPs

Rest of the business

- Network: capacity and support, for new products in particular
- Finance: product P&Ls
- HR: recruitment support, in particular for Specialist roles

Channel

**Capabilities,
dependencies
& risks**



Capabilities, dependencies and risks: Risks deep-dive

		Overview of key risks for POL to manage	Mitigation
Capabilities, dependencies & risks	Customer	Delivery of key programmes <ul style="list-style-type: none"> Growth in our insurance business, both for sales and value chain improvements are heavily dependent on: <ul style="list-style-type: none"> Successful conclusion of Titan (travel insurance new business model) Hawk (acquisition of Bol's share of insurance business) 	<ul style="list-style-type: none"> N/A – binary risk
	Product	Sales Capability <ul style="list-style-type: none"> there is a risk that the new sales model cannot deliver the required sales outcomes. 	<ul style="list-style-type: none"> We have already activated plans to improve the quality of our people and the tools to support them.
	Channel	Conduct risk <ul style="list-style-type: none"> Financial Services sales are heavily regulated and mis-selling presents a key risk to growth and credibility 	<ul style="list-style-type: none"> Together with Bol, Post Office has a have a coordinated 3 lines of defence approach to managing conduct risk.
		Partner risk <ul style="list-style-type: none"> There is a risk that Bol's balance sheet mix, capacity and operational capability is insufficient and cannot sustain the growth required 100% partner banks retained to achieve banking services revenues CTP & NTP does not limit Travel Money network 	<ul style="list-style-type: none"> Negotiations with Bol to consider changing income bands by channel so Bol's required balance sheet mix does not impact POL planned income
		Competitor Risk <ul style="list-style-type: none"> There is a risk that the activities will provoke a direct response from our competitors making the challenge to succeed harder. 	<ul style="list-style-type: none"> Monitor key challengers and respond accordingly.



Contents

- FS starting position and context
- FS vision under current Post Office's operating model
- Post Office FS 2020 revenue plan
- Building blocks to achieve 2020 Vision
- **Alternative scenarios reflecting TOM cost challenge**
- Key milestones and next steps

HIGHLY PRELIMINARY ESTIMATES

Estimated impact of potential TOM outcomes

£xm Revenue impact



	Description of impact	Estimated 2019/20 impact ¹
1 Removal of cash	<ul style="list-style-type: none"> Products with material direct impact: All payments/business banking products, travel money, Post Orders, Credit cards, current a/c, ATMs, savings etc Indirect impact: Majority of personal lines banking products that lose some sales from reduced footfall 	<p>£200m+</p> <p>+ indirect impact</p>
2 Removal of F2F sales (FSs, MSs)	<ul style="list-style-type: none"> Products with material direct impact: All personal lines banking and insurance products, with most pronounced impact on current accounts, life insurance and mortgages Potential contractual implications on Bol contract 	<p>£30m</p> <p>+ significant contractual implications</p>
3 Change in branch footprint and #s	A Mild reduction: Little to no impact	Limited
	B Material reduction (particularly to Mains): <ul style="list-style-type: none"> Direct impact: [xxm] Potential contractual breach Network effect (especially for payments) 	<p>Significant</p> <p>+ potential contractual implications</p>
	C Increase in physical points (particularly access points): likely upside, mainly for Bill Payments	TBC
4 Removal of cheques	<ul style="list-style-type: none"> Cheques are still regularly used in post-dated financial services applications Removal would have significant negative impact on product services including savings, NS&I, mortgages (deposit, valuation fees etc), bill payment (including Post Office's own credit card), personal/business banking and current account² 	TBC

1 Impacts not cumulative 2 Please note that we are investigating the options of truncating at source through digital capture (which has been announced by BBA)

HIGHLY PRELIMINARY WORK IN PROGRESS

TOM Interdependencies: Overview of existing commitments & obligations



Contractual obligations

- **Financial Specialists**
 - Post Office is committed to deploying at least 200 Financial Specialists (FSs) in Post Office branches; The FSs must spend substantially all of their operational time on providing financial services;
- **Branches**
 - We have confirmed that we intend to establish:
 - At least 2,000 Main Branches, of which at least 200 are intended to be Premier Branches
 - A network of local branches
 - We have a commitment to provide:
 - Up to 31st December 2015, 1,000 branches that offer all products and which are capable of having face-to-face transactions
 - From 1st January 2016, 1,250 branches that offer all products and which are capable of having face-to-face transactions
- **Face-to-Face Transactions**
 - Sales conversations with customers who are present in a branch to:
 - Enable completion of a product sale or;
 - Generate a sales lead for the remote completion of a sale or;
 - Generate a customer application

Regulatory impact

- We need to make an assessment on the legal and regulatory requirement for the certainty of supply of cash for current accounts and business and personal banking agreements, MoneyGram and Postal Orders and Savings withdrawals (up to £2000 per customer per day).

Govt. relations

- Postal Orders (POs) are enshrined in an Act of Parliament. The implications of not being able to service POs, through a lack of cash will need to be investigated.
- Payments services are Services of General Economic Interest (SGEI)– the impact of no cash delivery to branch, and Post Office's continuing ability to provide Bill Payments may impact our SGEI status and the impact this may have on State Aid.



Contents

- FS starting position and context
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Timeline



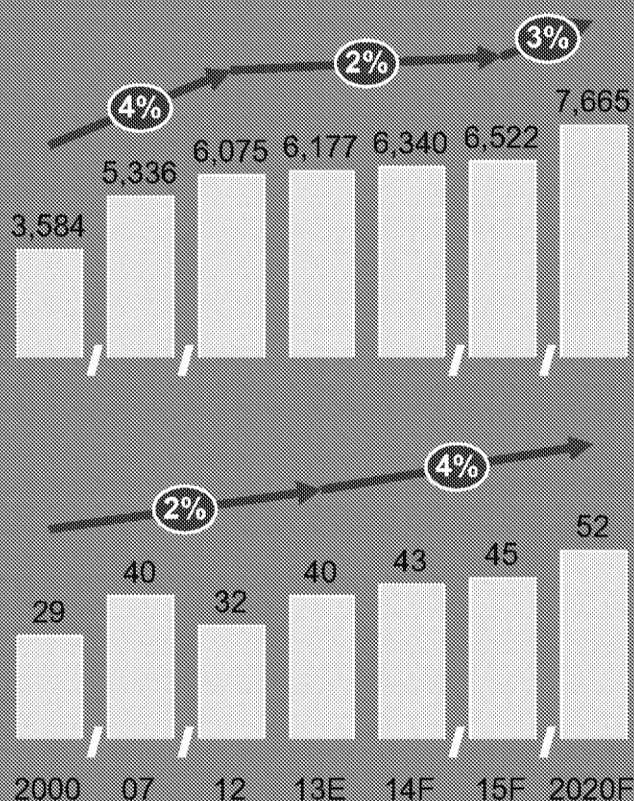
Appendix



Market – Personal Lines Banking: Retail Banking in the UK is sizeable and is currently experiencing significant innovation and some increase in competition



Market is recovering from crisis



Significant disruptions offer opportunities for challengers

Customer

- Branches preferred channel for complex sales & advice (67% advice done via branches) while transactions gradually migrate to digital
- Rapid uptake of digital solutions with higher expectations for convenience, speed and simplicity
- Low customer satisfaction with the Big5; yet there is high inertia (3% switching rate)

Competition

- Big 5 share roughly stable; simplification & digital as top priorities
- Emerging challengers pose threat with distinctive business models
 - Retailer banks (e.g., Tesco) gain share through pricing & rewards; others e.g., Virgin Money/ TSB/ Metro focus on customer service
 - Alternative players growing quickly (P2P is forecasted to be £45bn a decade from now, payday trebled over 2007-12 to £2bn)
 - Potential disruption from the likes of Paypal, Atom, Kabbage
- 25 banking applications in the pipeline at FCA PRA

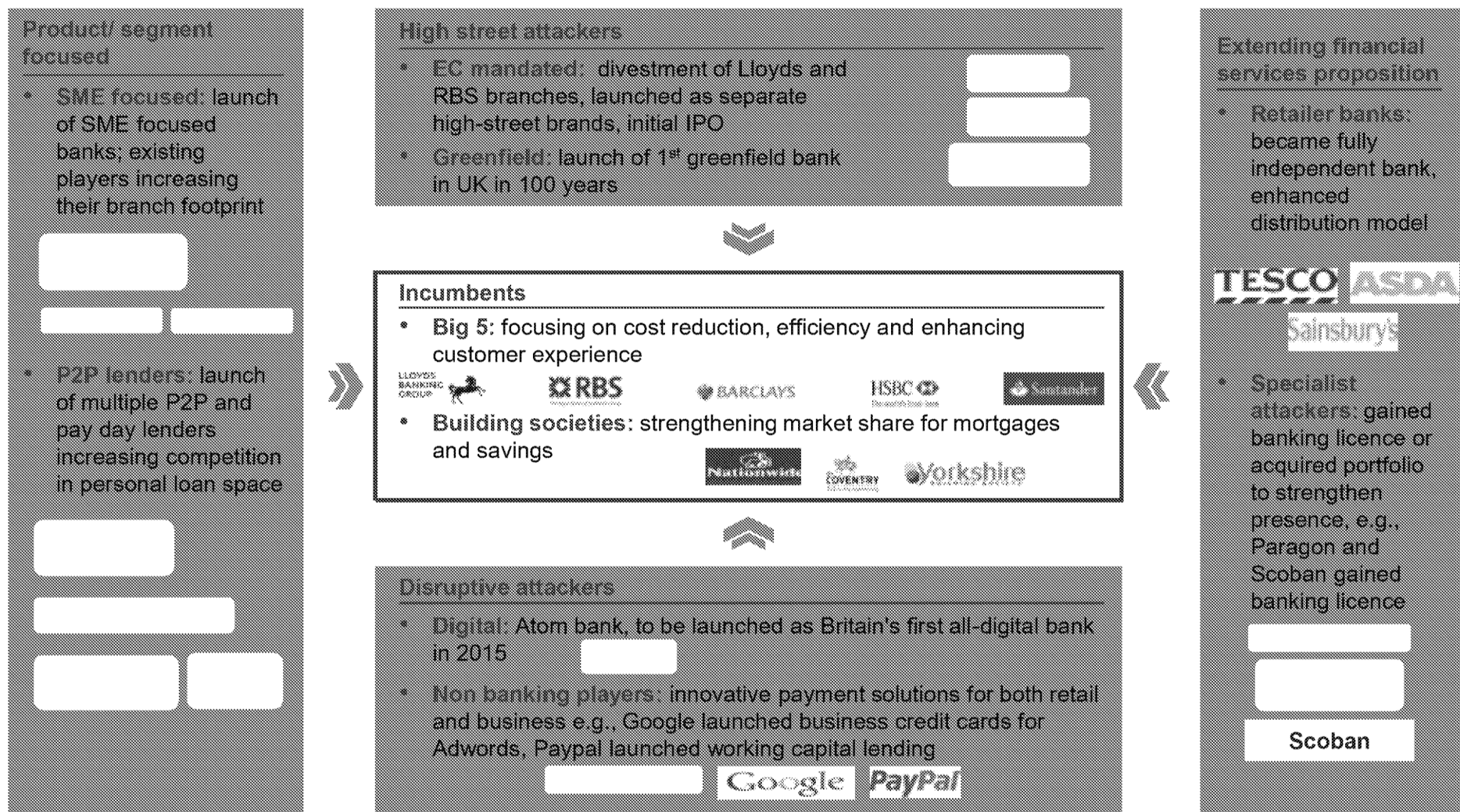
Regulation

- Regulators take multiple measures to boost competition: 7 day switching service, lowering capital requirements for new/small players
- Continued regulatory burden with increased customer protection rules
- FCA tough on consumer credit regulation with strong investigative and enforcement powers
- PCBS lays down accountability standards for senior officials along with criminal sanctions for gross misconduct
- Negative revenue impact due to PPI costs, RDR/ MMR implementation

While branches remain key & Big 5 share stable, market increasingly dynamic, given new challengers & business models

Source: McKinsey Global banking pool; expert interviews

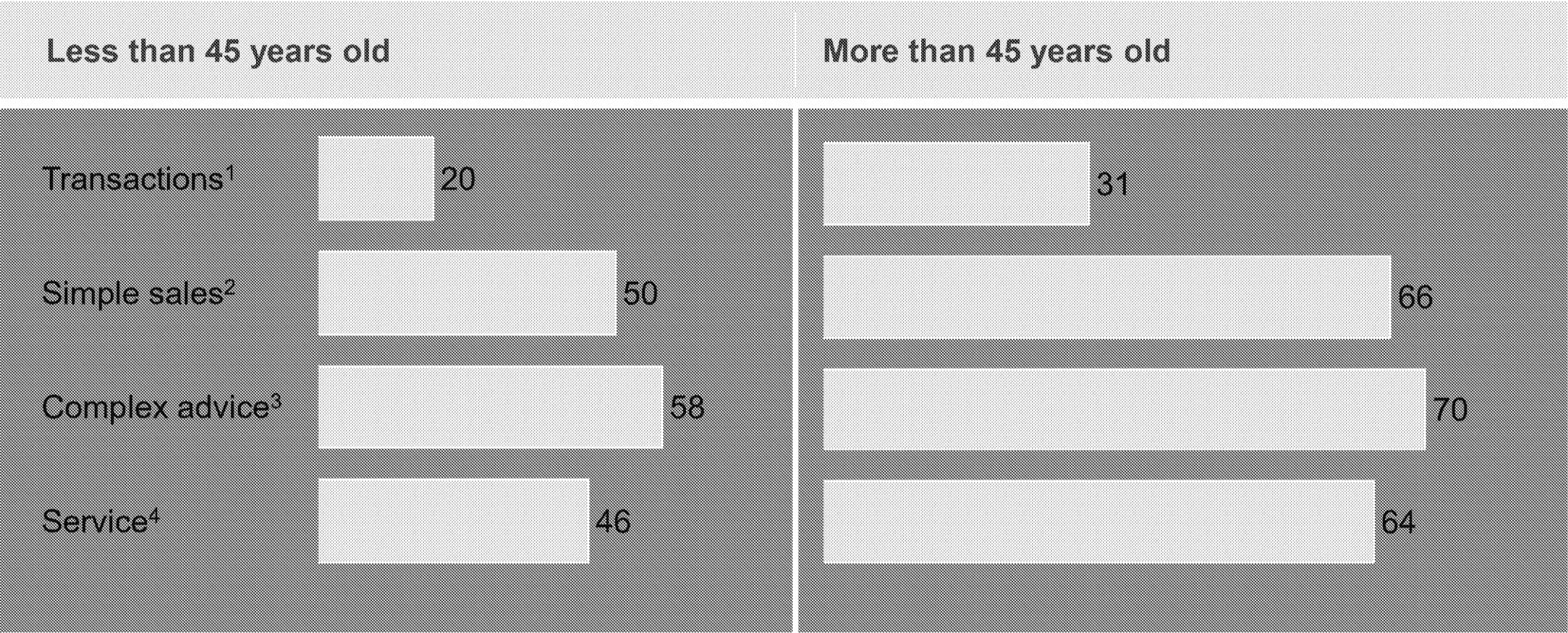
Market – Personal Lines Banking: Several emerging challengers are seeking to make their mark



Market – Personal Lines: Split of channel preference by age shows preference for branches across the board for 45+



Share of customers preferring branch by activity type, %, 2013



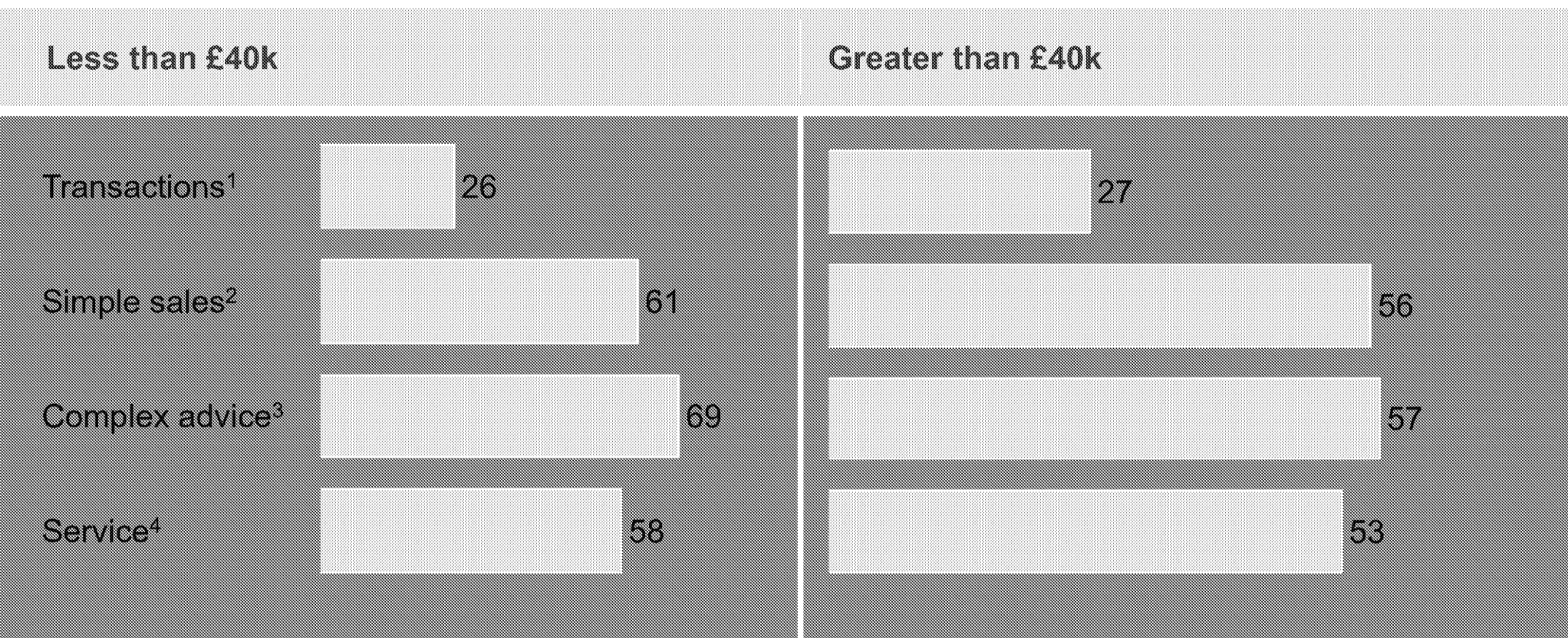
1 Cash withdrawal/deposit, balance enquiry
2 open simple accounts like savings, current account, credit cards, personal loans
3 Advice on mortgages, investments and life insurance
4 Information concerning general products, complaints, change account details, resolve a problem

Source: Multi-channel survey 013

Personal Lines – Split of channel preference by income shows preference for branches, especially for advice and complex sales



Share of customers preferring branch by activity type, %, 2013



1 Cash withdrawal/deposit, balance enquiry

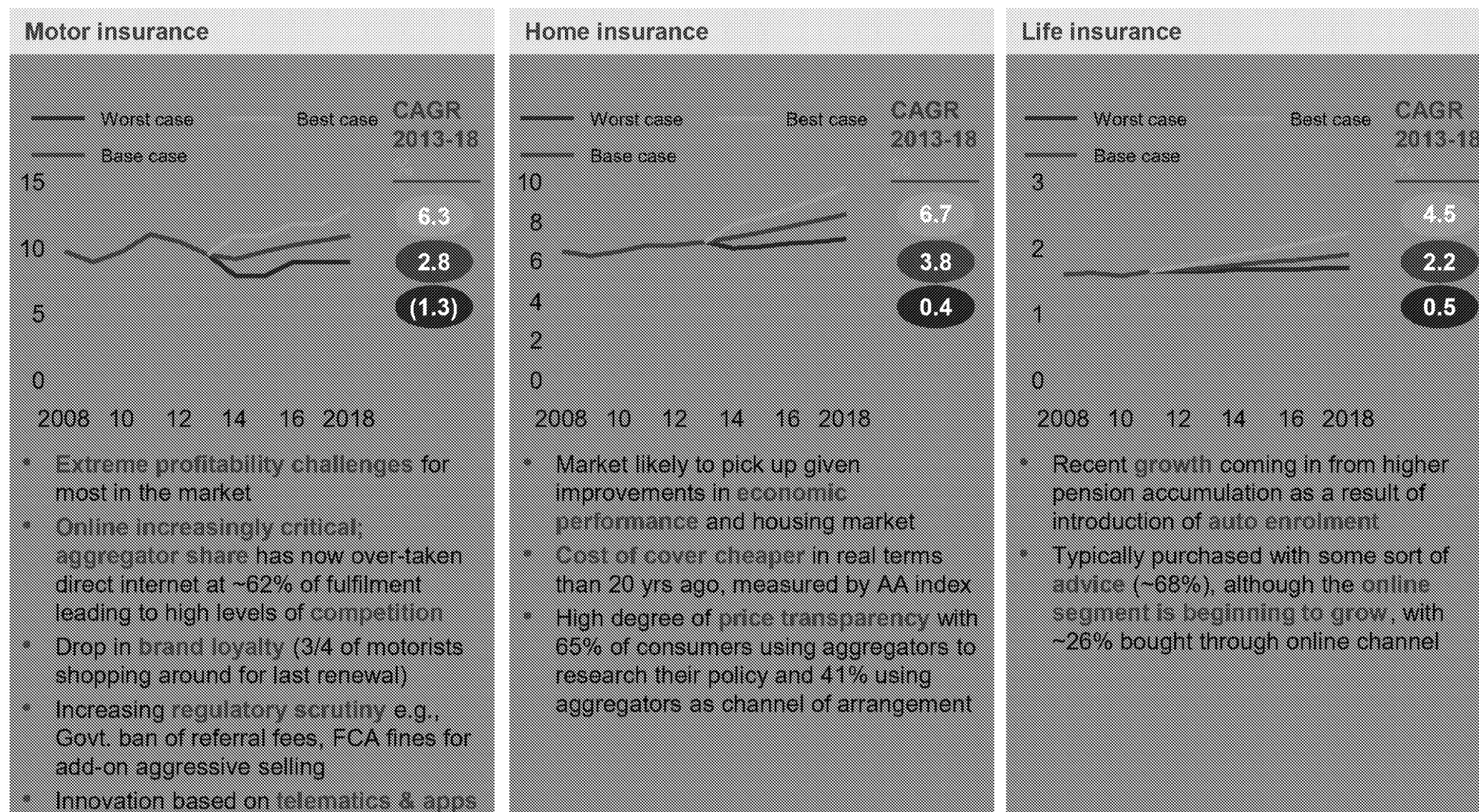
2 open simple accounts like savings, current account, credit cards, personal loans

3 Advice on mortgages, investments and life insurance

4 Information concerning general products, complaints, change account details, resolve a problem

Source: Multi-channel survey 2013

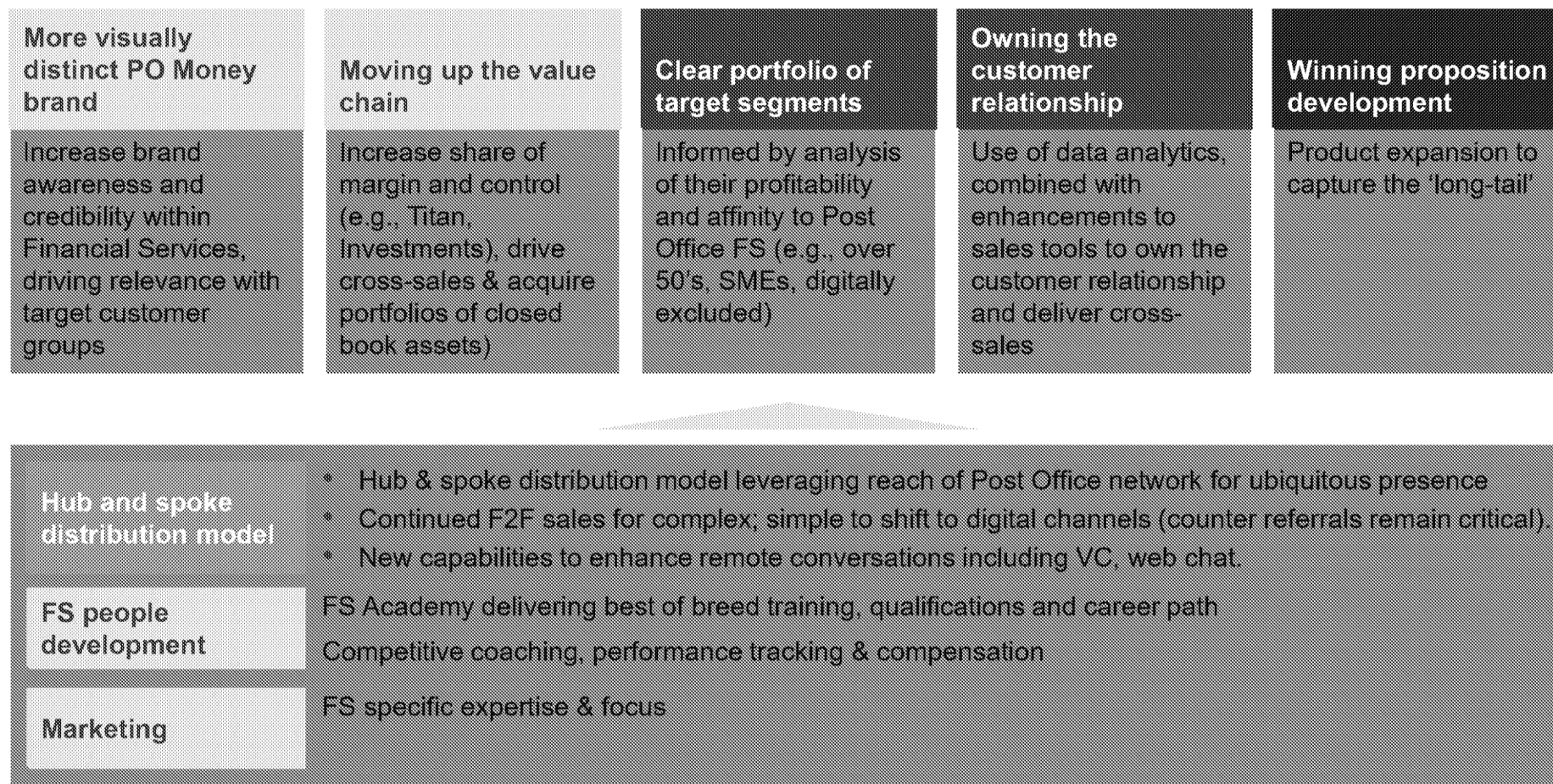
Market – Personal Lines Insurance: Markets returning to growth but pricing pressure remains with threat of commoditisation



Source: Mintel reports, McKinsey, AA insurance price index

Delivery model: Looking forward, FS will rely on 8 areas of activity

Customer Product Channel Capabilities



Source: Financial Services I business team analysis



Customer – Travel Money: Overview of customer needs

Travel Money customers are grouped based the segmentation from FRES and their perceptions are monitored in line with their key needs:

Segment Perceptions of Post Office

	More Dash than Cash	In Control & In The Know	The Price Is Right	Independent Thinkers	Prosperous & Discerning	Me, Myself & I	Work Hard Play Hard
Value for Money	66%	51%	68%	65%	62%	37%	54%
Exchange Rates	57%	44%	59%	56%	53%	33%	49%
Competitive Rates (Ranked 1st)	52%	36%	50%	50%	45%	30%	42%
Convenience	76%	60%	82%	78%	75%	47%	58%
Branch Accessibility	84%	70%	89%	86%	82%	58%	66%

What is the Reason to Believe and which propositions support it?

	More Dash than Cash	In Control & In The Know	The Price Is Right	Independent Thinkers	Prosperous & Discerning	Me, Myself & I	Work Hard Play Hard
RTB	Convenience	Value	Value	Convenience	Convenience	Convenience	Convenience
Proposition	<£250/£500 Euros Dedicated counters	>£250 >£500/£1000 Euros TMO Flash Sales	>£250 >£500/£1000 Euros TMO Flash Sales	>£250 >£500/£1000 USD + Exotics TMO/TMC Dedicated counters	>£500/£1000 USD + Exotics TMO/TMC TMC app Dedicated counters	>£500/£1000 USD + Exotics TMO/TMC TMC app Dedicated counters	>£500/£1000 USD + Exotics TMO/TMC TMC app Dedicated counters

Source: (FRES) Travel Money Marketing 2015/16 Planning and Insights

Customer – Payments & Banking Services: Customer needs typically relate to access, convenience and speed of service



	Payments	Banking Services
Customers	<ul style="list-style-type: none"> • Under-banked • Un-banked • Banked customers wanting anonymity • Banked customers forced to use specific payments service 	<ul style="list-style-type: none"> • Limited knowledge of end consumer, given these are customers of other banks
Needs	<ul style="list-style-type: none"> • Convenience: e.g. proximity, opening hours, accessibility, breadth of services (multiple transactions/activities i.e. send/collect mail at same time) • Speed of Service: e.g. queue times, service times • Assurance: e.g. trusted and safe transactions 	<ul style="list-style-type: none"> • Convenience, both in terms of opening hours and location • Specific services (e.g., Change giving) • Free at point of customer use
Trends / discontinuities	<ul style="list-style-type: none"> • Increasing comfort with using technology for the unbanked given growing smartphone penetration • New payment mechanisms that dis-intermediate Post Office e.g., smart meters, app based payments, P2P transfers 	<ul style="list-style-type: none"> • Decline in cash as a payment instrument caused by shift in consumer preferences and new digital technologies



Managing Financial Services Conduct Risk

Post Office, together with the Bank of Ireland (UK) (“BoI”), has a coordinated, 3 lines of defence approach to managing our conduct risk, which is focused on helping to prevent our customers from buying products that do not meet their needs.

	Bol	Post Office
1 st Line	<ul style="list-style-type: none"> Product Teams (Bol and 3rd part product providers) Capability Development Managers Financial Promotions 	<ul style="list-style-type: none"> Product Teams Sales Supervisory structure Marketing & PR Teams FS Risk
2 nd Line	<ul style="list-style-type: none"> Risk & Compliance Financial Promotions Monitoring 	<ul style="list-style-type: none"> Group Risk
3 rd Line	<ul style="list-style-type: none"> Audit 	<ul style="list-style-type: none"> Audit

Customers can buy our products in branch, online, via contact centres or by mail, depending on the product(s) they want. Each channel involves different risks for misselling.

Key areas of on-going focus and development

- | | |
|---------------------------------|--|
| 1 Financial Specialists: | Training, deployment and supervision |
| 2 Mortgage Advice: | Training and supervision of Mortgage Specialists |
| 3 Sales in agency: | Developing compliance and effective monitoring |
| 4 Incentive schemes: | Development and deployment across channels |
| 5 Financial promotions: | Maintaining compliant marketing and PR across all media including new media channels (e.g., Twitter) |
| 6 Pace of change: | Ensuring we have the capacity & capability to train, deploy and monitor new products/services |

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POST OFFICE LTD EXECUTIVE COMMITTEE

Risk Update

1. Purpose

The purpose of this paper is:

- 1.1 To present the Executive Summary of the PwC diagnostic review on risk and change management (20 minutes).
- 1.2 To present and agree the proposed next steps for developing the risk appetite statement (10 minutes).
- 1.3 Note the progress that has been made towards developing a narrative for the discussions scheduled to take place at the October Board meeting on the Kelly report (20 minutes).

2. Activities / Updates

- 2.1 **PwC Report:** As previously discussed at various ExCo meetings, PwC have now completed a diagnostic review of both risk and change management (terms of reference are attached as Appendix - A.1). An early draft report was submitted late last week (a delay to the original timetable) and we are expecting it to be finalised over the next 10 days. Pending finalisation, however, we thought it sensible to distribute the Executive Summary in order to give directional sense of their findings. This is attached as Appendix - A.2. The report recognises that the current arrangements are suitable for the stable state, however, given the Post Office's change mandate, a number of enhancements will be required including capability building at all levels. The risk team will present the report and accompanying action plans once the report has been finalised.
- 2.2 **Risk Appetite:** Attached is a short paper presenting a suggested action plan for determining Post Office's risk appetite (please refer to Appendix – B). The reason for bringing this paper to the ExCo at this stage is to confirm ownership of the risk categories listed in the table on page 1 of Appendix – B. Once agreed, the Risk team will be in touch to arrange meetings with each of the owners.
- 2.3 **Kelly Report:** You will recall that at the Board meeting in July, discussions were held on the Kelly Report. Subsequent to that meeting it was agreed that the CEO will provide an assessment of the risks and work undertaken/planned on actions resulting from the Kelly Report. A narrative is being worked on with Chris Aujard, Neil Hayward and Gavin Lambert to support CEO's discussion with the Board and this will be distributed in the meeting for discussion.

Chris Aujard
11 September 2014



2. The services

You have instructed us to provide the services:

Produce a PwC branded report for Chris Aujard, the Chair of the POL Risk and Compliance Committee, providing an overall assessment of risk at POL with an emphasis on the following two areas:

- Enterprise-wide Risk Management
 - A review of current and proposed arrangements for managing risk across POL to ensure these are fit for purpose, implementable in practice and appropriate for POL's business strategy, operating model and culture;
 - An action plan to address weaknesses and to work towards greater maturity including specific views on how the Board might best engage in an exercise to discuss and agree risk appetite.
- Change
 - A review of change capability and capacity against the PwC portfolio maturity framework and benchmark data to establish a POL baseline;
 - An action plan for addressing weaknesses (through ongoing assurance activity, deep dives etc.)

The output of this work will be based on and in the style of the attached document. (Post Office – Accelerating Change and risk Management Capability). A covering letter will also be provided to Chris Aujard in his capacity as the Chair of the Risk and Compliance Committee including copies to CEO, Paula Vennells and Head of Change Management, Alison Thompson.



InsertPOLAcceleratin
gchangeandriskcapab

3. Timetable and duration

We have agreed that this assignment will commence from the 14 July 2014 with early scoping work and have estimated, based on the outline schedule, that we will

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APPENDIX - A

Executive Summary

The Maturity Journey

All organisations evolve and mature over time. POL is a new organisation, having recently separated from RMG, and to that extent it is still working to establish a clear identity and purpose. It is not surprising therefore to find that it is taking time for POL to develop the appropriate checks and balances needed to manage risk or indeed the change lifecycle and assurance gates to ensure the effective management of more complex change. Historically POL has a good track record of delivering individual programmes and has managed both 'run' the business while 'changing' the business.

POL has not been complacent and there is a good level of awareness of the need to mature as POL ups its ambitions, with a number of steps already taken to appoint key personnel, review and strengthen governance structures and processes. This review is an example of that awareness and intention to build out and mature over time.

In many ways, in steady state, the current arrangements would broadly suffice – although we have been able to make a number of, hopefully helpful, suggestions to target and expedite further improvement. However, given the POL change mandate, which we have assumed to be fairly radical, the delta between where POL is and where it needs to be is even bigger. This report establishes the 'as is' baseline and makes recommendations which POL need to action in order to accelerate the improvements to risk and change management needed to support business transformation to deliver the 2020 Strategy and associated transformation plans.

The Strategic Areas Where Focus is Required

Based on our assessment there are a number of inter-related areas where POL needs to apply strategic focus to accelerate its level of maturity.

- 1) **Culture and behaviours:** If POL is still finding its identity, it is not surprising to find that POL is still working to establish a clear culture and norms. There isn't yet a clear 'POL way' of doing things. Investment of time, particularly with the senior leaders in the organisation is needed to work this through, if they are to provide a strong and consistent narrative throughout the POL transformation journey.
- 2) **Governance:** Although the Board and committee structure is fit for purpose, there is a lack of clarity around roles and responsibilities which undermines the ability for the governance structures to effectively operate. For example, we found little evidence of colleagues holding one another to account.
- 3) **Working in a complex transformation environment:** requires a stable culture, agreed norms, clear accountabilities and indeed a governance structure that supports decision making. It also requires senior leaders to do the right thing, work in a matrix structure and deliver the strategic agenda over and above their functional responsibilities. Addressing the two previous points would reduce the risks posed in relation to business transformation.
- 4) **Equipped for Business Transformation:** POL has the systems and processes in place to manage small scale change and risk within individual functions. It needs to equip itself with the vision, culture, processes, people and systems to deal with complexity and stress the organisation will undertake as part of Business Transformation. As part of our recommendations we have identified the need for POL to:
 - Better define its risk appetite and the common framework as to how it will manage risk across the organisation
 - Consolidate and simplify its change activity to reduce the number of moving parts
 - Equip itself with the right tools and processes including a common change language, the improvement in Management Information and upskilling of its change capability with the experience of undertaking transformational change.

APPENDIX - B**DEVELOPING RISK APPETITE: NEXT STEPS****1. BACKGROUND:**

This paper sets out the next steps required to progress to a Board level statement of risk appetite for the Post Office. To date, two papers on risk appetite have been discussed by ExCo; a paper at the ExCo risk session on 8 May 2014 and the risk appetite framework and journey presentation prepared by PwC and presented on 11 August 2014.

It is generally accepted that setting risk appetite is not a “right first time” exercise. Increased accuracy over setting appetite is gained iteratively.

2. ACTION PLAN:

The next steps in the process to develop a proposed Risk Appetite Statement for the Audit and Risk Committee and the Post Office Board are:

- Risk and Compliance have identified proposed categories of risk which will be included in the risk appetite statement. These categories and the business unit owners are:

Category of Risk	Proposed Owner
Customer and community requirements	Martin George
Safety, health and wellbeing	Neil Hayward
Financial Resources	Chris Day
Investment Programmes	David Ryan / Alison Thomson / Lesley Sewell
Government services	Martin George
Financial Services	Nick Kennet
Mails	Martin George
Business operations	Kevin Gilliland / Nick Kennet / Martin George / Chris Aujard
Regulatory Compliance	Alwen Lyons / Nick Kennet / Chris Aujard
Strategic initiatives / growth targets	David Ryan / Nick Kennet
Environmental responsibility	Neil Hayward

- Risk team will hold individual sessions with each of the above Risk Category owners to identify key risks and potential impacts in their respective areas.
- Agree areas where there is zero appetite for taking risks.

- Risk team will engage with risk category owners and subject matter experts to facilitate a structured discussion to agree risk appetite statement in areas where there is appetite for taking risks.
3. The proposed risk appetite statement will be presented to the Audit and Risk Committee on **15 October 2014** (date to be confirmed) and to the Post Office Board at its meeting on 29 October 2014.
 4. Following ratification of the proposal by the Board, Risk and Compliance will work with risk category owners on implementation of the risk appetite statements into business areas. This will include developing local metrics and tolerance levels for each category of risk.

ACTION REQUESTED:

ExCo are requested to confirm their agreement with the next steps, risk categories above and the owners allocated.

David Mason

11 September 2014

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POST OFFICE LTD EXECUTIVE COMMITTEE

SLT event planning – 3 October 2014

1. Purpose

The purpose of this paper is to:

- 1.1 update ExCo on plans for the next SLT event on 3 October.

2. Background

- 2.1 The last SLT event was held in early July at King's Place. Presentations were delivered on business performance, marketing and business transformation, with a market stall approach for sessions on mails, financial services, digital and business transformation. The day was rounded off with a session on leadership and development.
- 2.2 The event on 3 October will be held at one of the ETC venues, close to Museum of London.
- 2.3 It forms a key element of the communications strategy which is setting out the compelling case for change, building on earlier events, Team Talk Live, on-going communications tactics (blogs, Team Talk lite etc...) and provides a key opportunity to update colleagues and further harness their support.

3. Proposal

- 3.1 The proposal for the 3 October meeting is to broadly follow the same format as in July, with a business update in the morning sessions followed by afternoon sessions on leading through change. This latter session is aimed at providing SLT with the opportunity to reflect on the change journey so far and their requirements as leaders over the coming months.
- 3.2 It is essential that we use the meeting both to report back on developments since we last met, with specific reference to the accelerators, but also to keep up the momentum on the change narrative, emphasising the leadership responsibility of all on SLT during the months ahead.
- 3.3 SLT will also have been updated on cost reduction initiatives in a teleconference early in September.
- 3.4 The objectives of the 3 October session are therefore:
 - To continue the leadership dialogue around the accelerated strategy and in year performance: ensuring that SLT has the information it needs to update teams, and understands its role

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- To continue the leadership development journey into leading the transformation of the Post Office: including the opportunity to provide personal development opportunities
- To build on the development journey which began with Hay Group and the SLT away day sessions earlier this year

3.5 The proposed format is therefore:

Morning Sessions – Transformation Update

(Plenary sessions or SLT cohort groups)

- Keynote speech – Paula Vennells
- Business Performance Update – Chris Day/Sarah Hall
- Transformation update (including Wave 1 staff cost changes) David Ryan/team
- Network/Mails strategy update: Martin George/Kevin Gilliland/team
- Financial Services strategy: Nick Kennett/team

Afternoon Sessions - Focus on change leadership

(Break out into SLT cohort groups (x3) with Hay facilitators)

- Introduction: Neil Hayward/team
- The role of leadership through major change
- How to lead change whilst dealing with personal transition
- The difference between true sponsorship and being a “champion” (sponsorship is action not position)
- What we know of our collective and personal leadership styles – how will this help us, how will this hinder us? What are we going to do about it?

4. Recommendations

ExCo is asked to:

- 4.1 note the proposals set out above and agree the over-arching format of the event, subject to further updates.

Mark Davies
5 September 2014

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POST OFFICE LTD EXECUTIVE COMMITTEE

Winning in Mails and Network Extension Update

1. Purpose

The purpose of this paper is to:

- 1.1. Update the Executive Committee (ExCo) on latest developments in Mails and Network Extension.

2. Background

- 2.1. At the June Board we presented our plans to win in the Mails market and extend our network by an additional 10,000 to 20,000 Access Points.
- 2.2. The threats we face in the Mails market from the likes of Collect+ and myHermes continue to grow. Collect+ posted its first year of profit (£1.8 million) for the 52 weeks ending March 2014, with record full year revenues of £34.1 million on a volume of 13.6 million parcels. Collect+'s parcel volumes have continued to grow in the first quarter of 2014/15, with an additional 1.2m parcels reported on the same-period last year. If Collect+ continues to grow at last year's growth rates for the next three years, it will have profitable revenue of £240m and handle 74m items per annum.
- 2.3. Year-to-date Mails income is down (at Period 5) by £800k (0.6%) on last year and down by £10m (7%) on target, this pressure highlights the need to transform the mails business at pace.
- 2.4. However, some competitors are struggling in this highly competitive market. Local Letterbox, a parcels collections, returns and sending start-up which was due to open 500 parcelpods across the UK in 2014, has ceased trading.
- 2.5. We believe that this market has significant opportunity for Post Office Ltd (POL). We hold a significant share of the retail Mails market (>90%) and the parcels, collections and returns markets are growing.
- 2.6. In the three months since the June Board we have already made good progress with a number of actions to deliver on our ambition to win in mails and extend our network. This paper will update you on the key developments.

3. Key Points

- 3.1. While we have been engaging closely with Royal Mail Group (RMG) about our plans, and they have committed resource to help, we have not yet reached strategic alignment which will ensure that we can deliver our Mails strategy. Failure to reach alignment with RMG would negate much of the progress that is highlighted in this paper and the supporting reading. The team is currently working on a detailed set of timescales and deliverables which highlight the critical path that demonstrates when these agreements will need to be achieved.

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3.2. We have identified simplified journeys for our key mail products. So far we have agreed with RMG to waive constraints for Access Point trials, such as not having to weigh Home Shopping Returns.

3.3. Ivy trials have begun. We are on track to launch 177 pilots by the end of September involving retailers such as SPAR and OneStop, with two sites already live.

4. Activities/Current Situation

4.1. In the June Board update we highlighted several areas that are key to winning in Mails:

- Align Relationship with RMG.
- Large-scale Network Development.
- Product Simplification and Rationalisation.
- Capturing Mails eCommerce.
- Becoming the Leading SME Service Provider.
- Sales Efficiency.

Below is a brief update on developments in each of these key areas. More detail is provided in the supporting slide pack ('Winning in Mails and Network Development Update') to be found in the Reading Room.

4.2. Align Relationship with RMG:

- RMG remains integral to our plans for both Mails and Network Development, fully aligning our relationship is critical to our success across all areas.
- A joint plan has been developed with RMG. A joint POL and RMG Trading Board meets weekly to discuss progress and agree actions to deliver on this plan.
- Work has been split into five areas: Branch Metrics and Market Trends; Improving the Customer Journey and Providing the Right Products; Network Footprint; Pricing Strategy and Commercial Alignment; and Marketing Levers.
- We have already gained agreement on a new size for Small Parcels which combines the two current Small Parcel size limits. This is due to go live 20 October 2014.
- We also have agreement to waive some of RMG's requirements (weighing, CRB checks) at trial access points offering Home Shopping Returns.
- Our main objective for the next few months is to align our commercial relationship. At the moment there is some mis-alignment of incentives. For example, overall RMG is incentivised by revenue, whilst we are incentivised by volume as we receive a per product fixed fee, not a % of revenue.
- Over the coming few months we will work with RMG to align our objectives.

4.3. Large-scale Network Development

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- We have made significant progress with our ambition to grow our network by ~10k – 20k access points.
- We have set-up a cross-functional team (including RMG colleagues) with a clear mandate to deliver product simplification, retailer partnerships, engagement with stakeholders and viable technology solutions that will facilitate the extension of the network on commercial terms that is required for POL to win in Mails.
- Project Ivy has gathered considerable pace and is being shaped to test and learn for the broader network development.
- We have two trial sites live and commitment from retailers for a further 177 sites across the UK, by the end of September. These retailers include One Stop, SPAR and Eurogarages.
- We are in detailed conversations with a number of major national multiple retailers. We have a sales strategy which prioritises retailers based on a set of criteria including network size and revenues, increase in coverage, and potential for cannibalisation. With a view to launching whole-estate partnerships for future POL access points. For more specific detail refer to 'Winning in Mails and Network Development Update' to be found in the Reading Room.
- In parallel customer research is underway to ensure the access point propositions meet the needs of key customer groups, in respect of: product offering, channel, location, existing missions based on lifestyles, potential host partners and opening hours. The qualitative phase is now complete (and validates the initial products for simplification). The quantitative phase (a nationally representative survey of 5,000), will be complete in October 2014.

4.4. Product Simplification

- The objective is to simplify product journeys for both the customer and the operator. This will make our proposition more attractive to the operator and customer in an increasingly competitive market.
- We have identified the first phase of products for simplification; core Collections and Returns services (Home Shopping Returns and Click and Collect), alongside core sending services (1st and 2nd Class labels, Signed For and Special Delivery by 1pm, bought online via Click & Drop).
- We are working with RMG to develop a prototype to showcase these new customer and operator journeys on the latest low-cost, portable, minimal footprint hardware.
- The prototype will not only show the new product journeys but will also link into back-end systems e.g. financial reconciliation and RMG's track and trace.
- This prototype will be available at the end of September 2014, but will require technical and user testing before it can be deployed in a live environment.
- The next stage will be to work with RMG to radically simplify customer and operator journeys. This depends upon RMG removing significant long-standing requirements, such as weighing items.

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4.5. Capturing Mails eCommerce

- We have launched a Returns service with eBay which is expected to generate ~£7.6m in income this financial year and will launch a Click & Collect service with Amazon in September.
- Our ambition is to become the one-stop shop for e-commerce buyers and sellers, along each stage of the journey – from ordering, fulfilment, payment, financial services, collections and returns.
- We have commenced integration with Metapack to allow for more rapid engagement with RMG and collaboration in the Click & Collect market.

4.6. Becoming the leading SME service provider

- Please refer to 'SME Proposition Strategy Update' paper, in the Reading Room.

4.7. Sales Efficiency

- We have launched an unprecedented training and engagement programme with our frontline that has seen Mails income increase by 7%.
- It involves up-skilling our agents and Crown managers in Mails sales coaching capability. This began in July 2014 and so far we have engaged over 500 branches. On the back of this success there is a plan in place to speed-up the roll out.

5. Conclusion

5.1. Many of the actions we have outlined (such as Network Development and product simplification) are medium-term plays that will help to grow and safeguard business through the current plan period. As such we would not expect to feel the benefit of these changes in the current year.

5.2. The NPV on Network Development is positive (£2-3m). Beyond the direct benefits associated with capturing an additional £86m in revenue, Network Development will enable faster roll out of Product Simplification and shift to lower cost Locals Light Channel (benefits estimated to exceed £100m)

6. Recommendations

The ExCo is asked to:

6.1. Note the update and actions set out above.

Martin George and Kevin Gilliland

02 September 2014

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Winning in the Mails market (incl. Network Development)

ExCo update

Presentation – DRAFT
11th September 2014



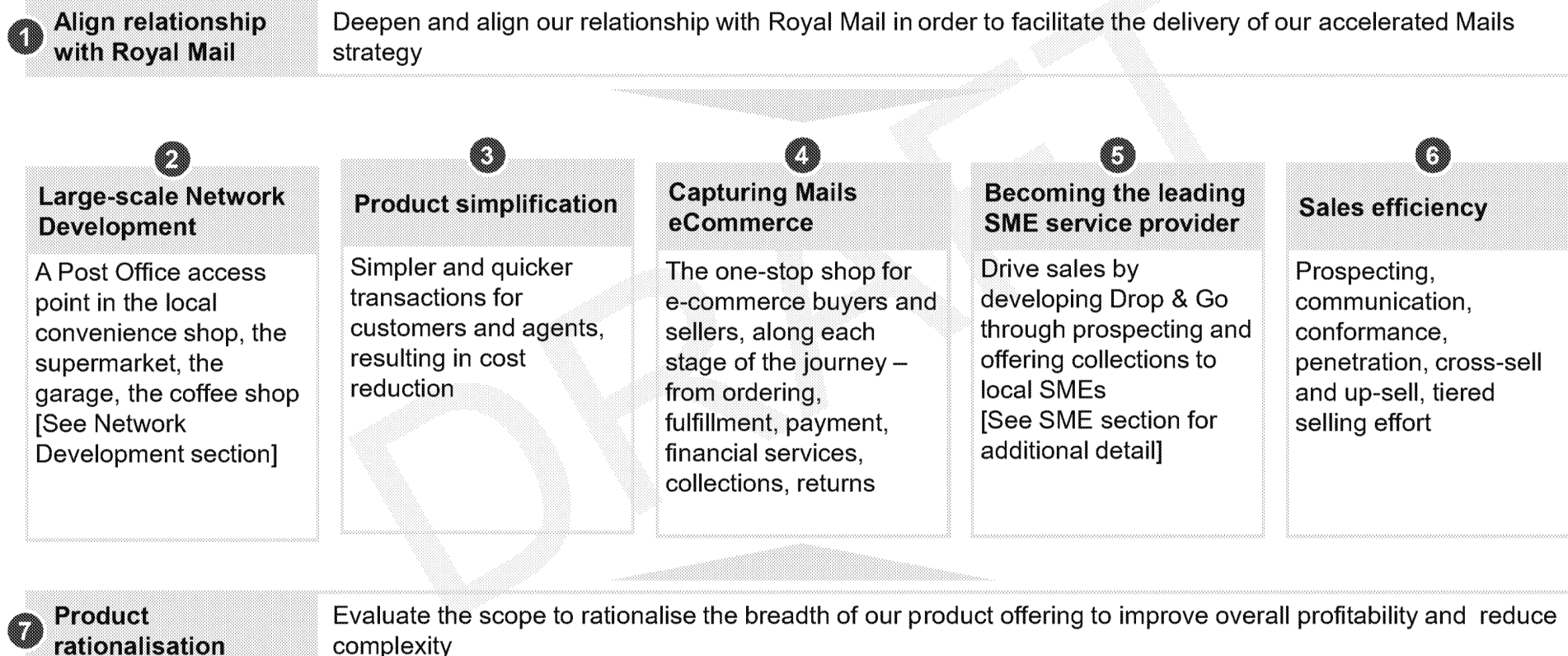
AS SHARED IN JUNE 2014 BOARD

At the Board meeting in June we set out our strategy to win in Mails



In June we highlighted the 7 key areas of activity to win in Mails:

■ Areas that we are drilling into today



Today, we will update the Board on how we're set up to deliver and the progress we have made in each of these area

SEPTEMBER TARGETS AS SHARED IN JUNE 2014 BOARD



We have made significant progress against our September targets...

	By Sept 2014	Progress made
Mails	<ul style="list-style-type: none"> Agree approach with RMG to Network Development and product simplification Drive Sales Efficiency Focus on winning big returns contracts (eBay) Build on Click & Collect Launch online Mails Develop alternative Click & Collect proposition if required (Metapack) 	<ul style="list-style-type: none"> Established ongoing collaboration with RMG, with agreement for trials Launched large scale frontline training and engagement programme spanning 4,000 branches, up-skilling agents and Crown managers, with 500 branches already covered Launched Returns service with eBay, expected to generate ~£7.6m in income this financial year Completed online Mails prototype Commenced integration with Metapack which may catalyse RMG collaboration in the Click & Collect market
Network Development	<ul style="list-style-type: none"> Detailed economic impact analysis on existing branches and agents Develop engagement process and narrative for key stakeholders (e.g., Government and NFSP) C. 135 pilots of new branches 	<ul style="list-style-type: none"> Assessed profitability of access points and high level economics of Network Development Engaged with NFSP, with support for trials Developed engagement strategy for key retail partners (independents and multiples) and initiated conversations with [XX] multiples and [XX] independents On track to launch 177 pilots by end September, with 2 sites already live
Digital	<ul style="list-style-type: none"> Launch digital Mails online service Post Office WiFi, range of complementary services 	<ul style="list-style-type: none"> On track to launch online Mails in September Post Office Wifi launched in x stores (TBC)
SME	<ul style="list-style-type: none"> Pilot SME proposition to test concept of packaged products Develop business case for SME loyalty programme Secure partnerships with key organisations such as Federation of Small Businesses (FSB), British Chambers of Commerce (BCC), eBay 	<ul style="list-style-type: none"> Segmented SME market and identified target customers (microbusiness, <10 employees) Prioritised opportunities: initial focus on core mails offering Commenced deep dive on the opportunity areas (mails and FS), validating them from a customer and commercial perspective



... and we are continuing to monitor competitor activity to ensure we are addressing corresponding challenges

Competitors continue to grow, with Collect+ posting its first profit this year...



5600 stores with volumes of 13.5m B2C C2B (Returns)
Rev: £34.1m, and 1st profit during 5 years of existence (£1.8m for Financial Year 2013/14)

"Our longer term aspiration is to achieve 12,000 stores and become a more convenient and accessible alternative to the Post Office in terms of opening hours and locations" – Neil Ashworth, Collect+ CEO

Customers of John Lewis will now be able to collect their purchases from 5,500 local newsagents, convenience stores, petrol stations and supermarkets connected to CollectPlus' network – Retail Week, August 2014



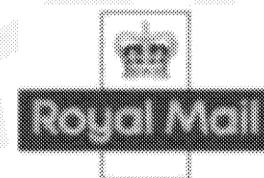
5k ParcelShops and 250 Lockerboxes, with volumes of 3,6m (2012)

We are partnering with Payzone– myHermes website

... while other players have been hit by the increasing competitiveness of the market



Local Letterbox, a parcels collections, returns and sending start-up which was due to open 500 parcelpods across the UK in 2014, has ceased trading.



1,400 delivery offices and 40 mail centres with parcel volumes of 1,068m
Rev: £7,787m

Royal Mail has warned that price changes and competition from rivals have hit its parcels business. Parcels revenue was down 1% in the three months to 29 June compared with the same period last year – BBC News, July 2014

Royal Mail is leading the FTSE 100 fallers on concerns about the future outlook for its business – the Guardian, August 2014

Source: Company websites, Press search

Align relationship with Royal Mail:

We are starting to create a far closer relationship with Royal Mail, although this will take time to build



What we need to achieve

- Align commercial objectives with RMG and agree the value share for RMG and POL
- Full collaboration to simplify customer journeys and extend the Post Office network

What have we already achieved

- Established and held regular meetings at the most senior level
- Held multiple working group and weekly Trading meetings
- Identified high priority commercial issues to be resolved jointly as well as operational changes required for Network Development
- Obtained agreement to waive constraints for access point trials e.g.,
 - Weighing of Home Shopping Returns not required
 - CRB checks not required
- Obtained agreement on reduced pricing offers to customers on small parcels
- Established priority programmes for 5 workstreams (separate slide)

What will we achieve in the next 3 months

- Align commercial interests both in short term (2014/15) and beyond.
- Obtain provisional agreement on top product priority issues (collections, segregation costs, barcodes)
- Agree and deploy a joined up customer experience across our on-line channels
- Deploy Network Development pilot sites with simplified products
- Ensure a great Christmas campaign to drive sales
- Share improved market and financial data to inform current and future decisions.
- Deploy pricing changes for our customers.

What will we achieve by the end of 2014/15

- Agree and put in place new commercial arrangement
- Commence rollout of Network Development access points
- Commence preparation for price changes at the beginning of April 2015

Risks

- **Stakeholder risk:** Fundamental misalignment of interests between RMG and POL, and / or lack of engagement at the right levels, result in failure/delays to securing key agreements for Network Development. Risk is inadequately controlled and high level engagement has been initiated around this topic

ALIGN RELATIONSHIP WITH ROYAL MAIL

Royal Mail remains integral to our plans for both Mails and Network Development



Areas for collaboration

Product and customer journey simplification

Digital agenda / online mails

Network Development

SME proposition

Programme of product pricing innovation

Annual ongoing marketing agenda

Examples of collaboration required

- Simplify and digitise the customer journey for selected mails products to reduce cost and complexity
- Develop new products (e.g., volumetric mails)
- Agree on an integrated digital agenda, incl. who owns the online customer
- Agree on and align our customer journeys for online parcels purchases
- Align on payment, cost and operational simplifications required to enable Network Development
- Further develop value propositions for SMEs, incl. new mails solutions
- Explore potential for pricing innovation, e.g., revenue sharing agreements to replace rate cards
- Coordinate marketing activities for maximum return

ALIGN RELATIONSHIP WITH ROYAL MAIL

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04 August 2014**To resolve these issues we set up a POL & RMG working group to meet weekly to discuss progress and deliver on this plan**

Joint Governing Group: Emily Pang, Mike Newnham, Sue Whalley, Toby Farrance, Martin George, Kevin Gilliland, Paul Brown, Kim Lindsay, Ian Kennedy

Branch Metrics and Market Trends	Improving the Customer Journey and Providing the Right Products	Network Footprint	Pricing Strategy and Commercial Alignment	Marketing Levers		
Anna Malley, Shelley Merrick	Charlie Herbert, Kim Lindsay	Anna Malley, Ian Kennedy	Anna Malley, Paul Brown	Pete Markey, Luisa Fulci		
RMG Consumer Channels Team, Roger Morris, Rene Menzl, Alasdair McGregor, Nicholas Supinovich	Roger Morris, Martin Lomas, Spencer Chapman, Ian Crumpton, Chinh Dinh	Oli Stewart, Roger Morris, Peter Davis, Kim Lindsay, Alasdair McGregor	Antony Harvey, RMG Finance, RMG Operations, Rene Menzl, Kim Lindsay, Eamon Price, Adam Smith	Helen Lamont, Rene Menzl, Katy Avon, Manjil Curtis		
Agree the key questions that need to be answered in relation to changing sales volumes by product, and co-develop solutions Including: <ul style="list-style-type: none">Identifying opportunities to Confirming data required to analyse product performance accurately at branch level, including factors such as sales volumes by product, proximity of competitor locations, ease of access etc.Identification of key drivers for customer behaviourMonitoring and tracking changes in the market to identify opportunities and agree priorities	Ensure we jointly meet customers' needs by providing the right products through the right channels using best in class customer journeys Including: <ul style="list-style-type: none">Identifying opportunities to re-engineer products and processes to deliver the convenience valued by customers from different segmentsShare existing analysis of customer needs and identify any further intelligence required to help direct product development by segment - how can we make life easier for our most valued customers?Development and ownership of a single online channel (and customer contact strategy) for RMG productsEnsure alignment of the digital and physical customer experienceRecommend product developments by segment e.g. solutions to help SMEs be more efficient/effective when buying services through POLAgree on the information required to help identify the ideal customer experienceDevelop role of the Franchise Advisory Council	Alignment and agreement on the future size and shape of the Network to meet customers' needs Including: <ul style="list-style-type: none">Share existing analysis on network coverage and any identified gaps, to the requisite depth of detailAgree principles for network expansion e.g. areas of high footfall or residential population, opening hours, location of competitionAlign on the optimal footprint for network expansion including the services required at new locations	Ensure commercial interests of RMG, POL, and Agents are fully understood and aligned Including: <ul style="list-style-type: none">remuneration structures where required to help drive desired behaviours and associated salesExplore potential for pricing innovation	Coordination of marketing activity to support sales strategy and to help maximise revenues Including: <ul style="list-style-type: none">Focused activity for key products and servicesAgreed plan for introduction of additional Retail Development Manager, funded by RMG		
Programme Management Principles	<input type="checkbox"/> Monthly Governing Group meetings <input type="checkbox"/> Minimum fortnightly working group meetings <input type="checkbox"/> Detailed programme plan to be developed		Legend	Objectives / sample outputs	RMG and POL leads	Additional Working Group Members

Strictly confidential

Royal Mail Group



6



Large scale Network Development:

We have made material progress towards extending the network

What we need to achieve

- Expand our network by 10k to 20k access points to meet customer needs and counter competitive threats

What have we already achieved

- Set up a comprehensive programme to drive delivery, resourced with cross functional teams
- Developed 5 new operating models for access points and modelled future size and shape of entire network
- Developed detailed access point and network economics
- Identified priority retailers, developed messaging, and held over [10] conversations, with [x] indicating high interest (TCG, Morrisons, Waitrose, McColls, SPAR,...)
- On track to launch 177 access point trials on 22nd of September, with 2 sites already live
- Conducted qualitative customer research to ensure access points meet customer needs
- Engaged with NFSP and obtained support for 177 trials

What will we achieve in the next 3 months

- Launch access point trials and monitor performance
- Conduct quantitative customer research
- Refine operating models according to trials and customer research
- Reach agreement with NFSP on their position towards full Network Development

What will we achieve by the end of 2014/15

- Achieve a network of 12,000 locations (of which 400 access points)
- Secure contracts with 2-5 priority retailers, to meet FY15/16 rollout aspirations
- Put in place detailed operational plan to roll out c. 5000 access points in FY15/16

Risks (further detail on page 12)

- Royal Mail** (stakeholder risk): Misalignment with, or lack of engagement lead to failure / delays to key agreements, e.g., pay, costs, operational simplicity
- Commercial viability** (market and operations risk): Unfavorable market movements and lack of operational excellence lead to lower than expected volumes
- Stakeholder engagement** (stakeholder and legal risk): Insufficient engagement with NFSP, agents, MPs, and SHEX/ BIS lead to opposition of Network Development
- Retailer agreements** (market and technology risk): Insufficiently attractive propositions result in lower than expected number of retailers hosts for access points
- Competitor response** (market risk): Competitors react aggressively to access point rollout, resulting in delays or cost increases

LARGE SCALE NETWORK DEVELOPMENT

AS SHARED IN JUNE BOARD

Our vision for Network Development is to support the Mails Strategy by capturing physical convenience through omnipresence



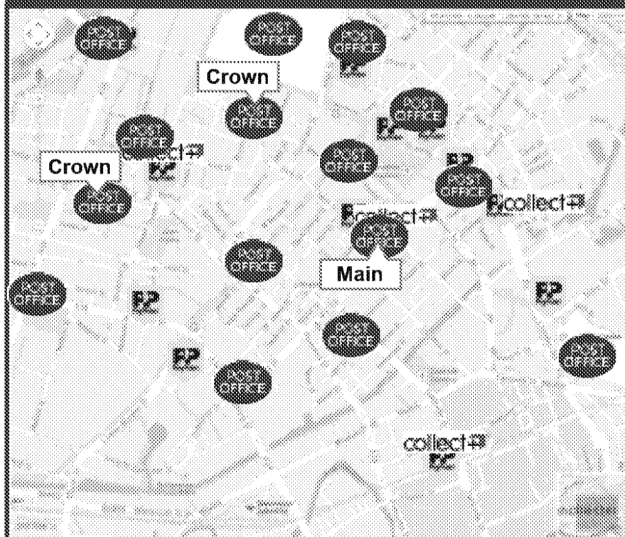
Post Office access point

collect+ Collect+ Location



PayPoint Location

Vision for POL's future network (Manchester City Centre example)



- A flexible range of operating models
- Conveniently located within 10 mins of where customers live and work
- Omni-present (25 to 30k total outlets) to capture physical convenience, exceeding competitor networks in key geographies

Supplementing our core network with large scale Network Development

- Additional 15-20,000 access points
- Deliver Network Development through a simple, low cost operating model:
 - Hosted by a high footfall, viable retailer or location, e.g.:
 - Offering a selected product set:
 - Mandatory parcels: 1st & 2nd class, Special Delivery, Collections & Returns, International parcels
 - Optional additions (depending on retailer): bill pay, E-top-up, Travel money & cashback (using retailer cash)
- Trials to inform technology, economic model, retail partners, and product range prior to large scale roll-out
 - Using existing technologies for initial pilots:
 - Horizon terminals
 - Post & Go machines
 - Paystation
 - Testing new technologies capitalising on CDP capability
 - We will evaluate the role of and impact on our existing agents

LARGE SCALE NETWORK DEVELOPMENT: PROGRAMME

We have set up a comprehensive programme , grouped into 7 delivery focused units



TO BE CONFIRMED

	1	2	3	4	5	6	7
	Programme Controls	Critical Stakeholders (Engagement)	Retailers and Partners	Customer Commercial Requirements	Network Modeling & Economics	Product Design	Implementation (incl. Ivy trials)
	Rail Mitchell	Kim Lindsay	Kim Lindsay	Chinn Dinn	Aleodair McGregor / Nick Shipilovich	Ravinder (Abe) / Chinn / Jim MacAulay (Accenture)	John Theophilos
Includes	<ul style="list-style-type: none"> Implementation Plan Overall Project Management and Tracking Programme Business Case 	<ul style="list-style-type: none"> NFSP Engagement RMG Collaboration JV's, Partnerships, IPR and Acquisitions 	<ul style="list-style-type: none"> Retailers and Partners 	<ul style="list-style-type: none"> Competitor and market landscape Channel Strategy Proposition Development Innovation Customer Insight Operating Model and Economics Network and POL Economics 	<ul style="list-style-type: none"> Operating Model and Economics Network Design and Operations Network and POL Economics Crowns and Community Branches Wider network implications, including implication for NT and the cliff 	<ul style="list-style-type: none"> Product and Journey Simplification Technology and Digital Service Design Customer and Operator Experience 	<ul style="list-style-type: none"> Ivy trials Channel Migration Strategy Marketing Plan Stakeholder Management and Comms Business Support Legal

LARGE SCALE NETWORK DEVELOPMENT: PROGRAMME

We have developed a robust implementation plan, which allows us to deploy at pace, learning and enhancing the solution as we go



	Phase 1 – Prototype and planning	Phase 2 – Live roll out and refinement	Phase 3 – Extend functionality and acceleration	Phase 4 – Completing proposition and extend to core network	Phase 5 – Complete roll out and finalise network changes	Phase 6 – Embed and refine
Timeline	July – October 2014	November 2014 – March 2015	April – July 2015	August – November 2015	December 2015 – April 2016	May – August 2016
# access points	180	400	2000	4500	6000	8500 (increases to 12000 by end 2017/18)
Retailers and partners	<input type="checkbox"/> Sales Pipeline Plan <input type="checkbox"/> One Strategic Partner Signed Up inc Roll Out Plan <input type="checkbox"/> Sign Up 50 Independents <input type="checkbox"/> Agree on >135 pilots	<input type="checkbox"/> At least five Strategic Partners Signed Up inc Roll Out Plan <input type="checkbox"/> At least 100 Independents sites signed up			<input type="checkbox"/> At least 10 Strategic Partners Signed Up inc Roll Out Plan <input type="checkbox"/> At least 500 Independent sites signed up	
Product design and digital	<input type="checkbox"/> V1 Tablet solution Build and Test, including basic mails products <input type="checkbox"/> Strategic Live Support Option Agreed <input type="checkbox"/> Back End Reconciliation <input type="checkbox"/> Bill Pay High Level Design <input type="checkbox"/> EPOS High Level Design <input type="checkbox"/> Network Solution (Wifi) agreed	<input type="checkbox"/> V2 Tablet Build and Test (Bill Pay, Top Money gam?) <input type="checkbox"/> Camelot Services developed to tablet <input type="checkbox"/> Strategic Live Support High Level Design <input type="checkbox"/> Customer / Retailer Journey Security <input type="checkbox"/> Develop Fully Self Service High Level Design and Bae <input type="checkbox"/> Tactical Tablet Support by the Programme for the pilots <input type="checkbox"/> Design and Develop 'Integrate with existing EPOS Code designed <input type="checkbox"/> SMS to Customer enhanced with Branch Finder & Refere <input type="checkbox"/> Design, Build Test PIN Pad & PCI Strategy			<input type="checkbox"/> V3 Tablet Build and Test <input type="checkbox"/> Deploy PIN Pad & PCI Strategy <input type="checkbox"/> Strategic Live Support Build, Test and Go Live <input type="checkbox"/> Decommission BAE Tactical Support <input type="checkbox"/> Prototype FFS in one store <input type="checkbox"/> Deploy PIN Pad & PCI Strategy	
Implementation and support	<input type="checkbox"/> Implementation Process for V1 Designed and Tested (Marketing, Coms, Training etc) <input type="checkbox"/> Standardise Retailer Contracts Legal <input type="checkbox"/> Retailer Operational Design for Tablet 400 <input type="checkbox"/> Procurement Plan and Model	<input type="checkbox"/> V1 Tablet Deployed 1 to 400 Access Points <input type="checkbox"/> Implementation Process for V1 Designed and Tested (Marketing, Coms, Training etc) <input type="checkbox"/> Create PO Box V2 <input type="checkbox"/> Deploy One Strategic Partner <input type="checkbox"/> Replace Pay Stations with Tablet Access Points <input type="checkbox"/> Retailer Operational Design for Tablet 400 plus			<input type="checkbox"/> V2 Tablet Deployed 400 to 2000 Access Points <input type="checkbox"/> Deploy Five Strategic Partners	

LARGE SCALE NETWORK DEVELOPMENT: PROGRAMME

We have also put in place robust governance to ensure sufficient oversight



TO BE CONFIRMED

FN Accountable Executive Group

Members:

Executive sponsors – Martin George, Kevin Gilliland (C)
Executive stakeholders – Paul Brown, Chris Day, Ian Kennedy, Nick Kennett, Lesley Sewell

Programme Leadership Team

Members:

Programme Manager – James Bellamy (C)
Business sponsors – Paul Brown, Ian Kennedy, Kim Lindsay, Alasdair McGregor, Nick Stipinovich, John Theophilos

Weekly sponsor update

Technical Design Authority

Chair: Chief Technology Officer – Paul Bleasby

Product Design Authority

Chair: Head of Digital – Giles Dunning

Delivery Authority

Chair: Delivery Director – John Theophilos

Delivery Team

Finance, Legal, I.T., Network, Commercial, Legal, Procurement, Marketing, Comms

Project

Project

Project

Project

LARGE SCALE NETWORK DEVELOPMENT: PROGRAMME

While we have made material progress, we are aware of a number of key risks that could jeopardise the programme




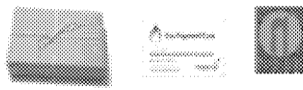
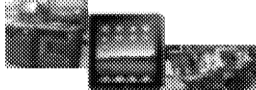

* Dependent on Royal Mail

Key risks	Description	Categorisation
Royal Mail (Stakeholder risk)	<input type="checkbox"/> Fundamental misalignment of commercial interests between RMG and POL, and / or lack of engagement at the right levels, result in failure/delays to securing key agreements for Network Development, impacting viability of access point business case. Key agreements include: <ul style="list-style-type: none"> Expected pay rates from RMG to POL for products in access points Waiver of key operational costs, e.g., collection costs, cost of scales Enablers of operational simplicity, incl. IT integration, e.g., no need for parcel segregation, no need for multiple labels, product journey simplification, integration of track and trace etc. 	<input type="checkbox"/> Inadequately controlled *
Commercial viability (Market and operation risk)	<input type="checkbox"/> Unfavourable external factors (e.g., market changes, product pricing) lead to lower than expected transaction volumes, driving down profitability <input type="checkbox"/> Lack of operational excellence and planning (e.g., location of access points, operational simplicity, etc.) lead to lower than expected transaction volumes or higher cost, driving down profitability <input type="checkbox"/> Note that RMG collaboration is a key enabler of operational simplicity (see RMG stakeholder risk above)	<input type="checkbox"/> Controlled *
Stakeholder engagement (Stakeholder and regulatory risk)	<input type="checkbox"/> Insufficient engagement with NFSP leads to lack of buy-in, resulting in disruptions to existing programmes (NT) <input type="checkbox"/> Perceived threat of Network Development leads to lack of acceptance by agents and MPs, resulting in industrial action, reputational damage and negative publicity <input type="checkbox"/> Lack of timely engagement with SHEX and BIS result in delays to approval to deviate from 2020 plan, resulting in disruptions to plan timelines	<input type="checkbox"/> Controlled <input type="checkbox"/> Inadequately controlled <input type="checkbox"/> Controlled
Retailer agreements (Market and technology risk)	<input type="checkbox"/> Insufficiently attractive propositions (either due to commercial terms or complexity of operational requirements), result in insufficient buy-in from retailers willing to partner with Post Office, hence delaying the programme <input type="checkbox"/> Operational simplicity dependent on timely completion of product simplification solution build, and agreement with Royal Mail	<input type="checkbox"/> Controlled * <input type="checkbox"/> Inadequately controlled
Competitor response (Market risk)	<input type="checkbox"/> Market risk that competitors react to Network Development by moving more aggressively to secure position (e.g., by lowering prices, filing anti-competitive challenges against POL), resulting in delays and or cost increases to programme	<input type="checkbox"/> Controlled

LARGE SCALE NETWORK DEVELOPMENT: OPERATING MODELS

To deliver on Network Development, we have developed a range of new access point operating models



	1 RETURNS ON A PAYSTATION (IVY ONLY)	2 BASIC MAILES +	3 ASSISTED SELF-SERVICE	4 SELF-SERVICE
				
Mails	<ul style="list-style-type: none"> Accept only 	<ul style="list-style-type: none"> Accept only 	<ul style="list-style-type: none"> Sale and accept 	<ul style="list-style-type: none"> Sale and accept
Purpose	<ul style="list-style-type: none"> Quick rollout for project IVY 	<ul style="list-style-type: none"> Large-scale rollout for Network Development with product offering at least as good as competitors 	<ul style="list-style-type: none"> Supports extension in high volume locations with limited staff capacity (e.g. convenience stores with high staff costs) 	<ul style="list-style-type: none"> Supports extension in high volume locations with no staff requirement (e.g. large supermarkets with spare space)
Products	<ul style="list-style-type: none"> HSR only 	<ul style="list-style-type: none"> HSR Click and collect 1st/2nd with signed for Tracked (exact product tbc) Billpay eTop-up 	<ul style="list-style-type: none"> HSR Click and collect 1st/2nd with signed for Tracked (exact product tbc) Billpay eTop-up 	<ul style="list-style-type: none"> HSR Click and collect 1st/2nd with signed for Tracked (exact product tbc)
Customer need	<ul style="list-style-type: none"> Online shoppers seeking quick drop off in convenience locations with extended opening hours 	<ul style="list-style-type: none"> Online shoppers and parcels senders seeking quick drop off in convenience locations with extended opening hours Customers who want to do billpay and eTop-up 	<ul style="list-style-type: none"> Convenience purchases at a more accessible location with extended opening hours 	<ul style="list-style-type: none"> Convenience purchases at a more accessible location with extended opening hours
Technology	<ul style="list-style-type: none"> Paystation and barcode scanner Weighing scales³ 	<ul style="list-style-type: none"> Low cost, simple, portable hardware with easy to update software ePOS integration possible⁴ 	<ul style="list-style-type: none"> Self-service tablet with integrated barcode scanner, weighing scales and printer 	<ul style="list-style-type: none"> Options include: <ul style="list-style-type: none"> Self-service lockerbox Customer-facing tablet, with intelligent drop box SSK, with intelligent dropbox

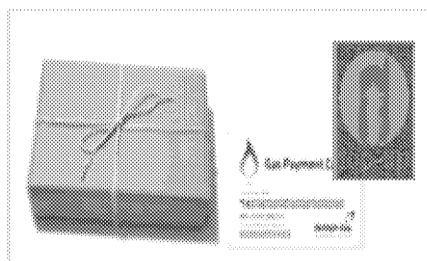
1 A version of this operating model will be ready in September on a tablet with a limited range of the products using the unsimplified existing customer journeys

2 Not exhaustive 3 Currently required by RMG - engaging with RMG to ascertain feasibility of waiving revenue protection requirement

4 ePOS integration is being examined as it is a key retailer requirement but costs are not yet confirmed. Assumption is higher development cost is balanced by lower per site hardware cost

LARGE SCALE NETWORK DEVELOPMENT: OPERATING MODELS

Basic Mails Plus is the primary operating model that will support Network Development



DESCRIPTION

- Acceptance only model for sending and collection of parcels, alongside bill pay and eTop-up
- Customer processes mails transaction online before dropping parcel(s) off at access point
- Access point simply scans the barcode, issues CoP and stores parcel for RMG collection
- Bill pay and eTop-up allow significant scope for market share growth and allow retailers to consider moving to Post Office from competitors

PRODUCTS

- Acceptance only for mails:
 - 1st/2nd class (with signed for add-on)
 - Home Shopping Returns
 - Click and collect
 - Tracked product (possibly special delivery but may not need time element with fixed pick-up time)
 - International (Airmail)
- Essential non-mails services: bill pay and eTop-up

KEY ELEMENTS

- **Technological solution**
 - Simple and low cost (one-off and on-going)
 - Low training requirement
 - Small in-store footprint; could be ePOS integrated
 - Easy to update software and open source
 - Minimum infrastructure requirements
 - Label printed in store (preliminary customer research suggests this could be a USP)
 - Low operational requirements
 - Retailer cash with direct reconciliation
 - ePOS integration available for suitable major partners
- **Agent pay**
 - Fully variable
 - Fair market rate
 - Simple blended flat rate
 - POL should keep a higher percentage of retained margin relative to locals
- **Product set to be competitive**
- **Short in-store counter transaction time**

KEY OPERATIONAL CONSIDERATIONS

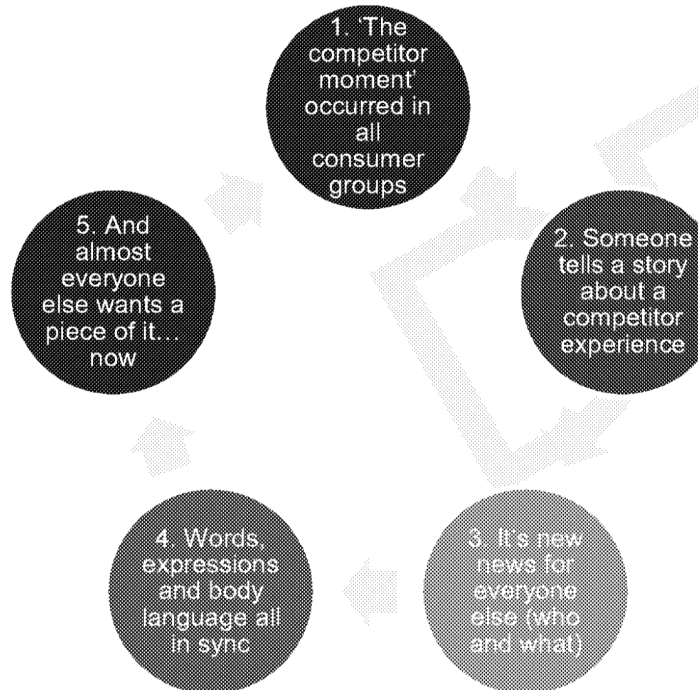
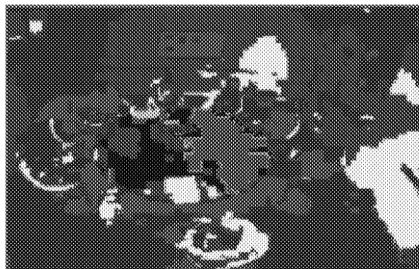
- **Collections**
 - RMG to collect
 - Most likely new access points will already be on existing collection routes
- **Segregation**
 - No segregation at point of acceptance
 - Segregation performed by RMG post-collection
- **Revenue protection**
 - No weighing or sizing performed at access point
 - RMG to perform spot checks at mail plants
- **Cash**
 - No cash required for mails as payment is taken online
 - Retailer cash for eTop-up and bill pay

LARGE SCALE NETWORK DEVELOPMENT: OPERATING MODELS



Emerging insights from customer research validates the imperative for new operating models and ND...

The 'competitor moment':



Competitors are more convenient and the basic functionality / services offered resonates with consumers and SMEs

Convenience

- Competitors are seen as a more convenient alternative to Post Office, providing quick drop off, longer opening hours and online payment

Tracking

- For those using competitors – now not seen as an additional benefit (almost expected)
- Likely to become a basic requirement for most
- Expectation that tracking sophistication will increase overtime (e.g. apps, real-time) and become commoditised

Insurance

- Although not used by all, for those sending parcels of value provides re-assurance
- Offered as standard by some competitors

Weight

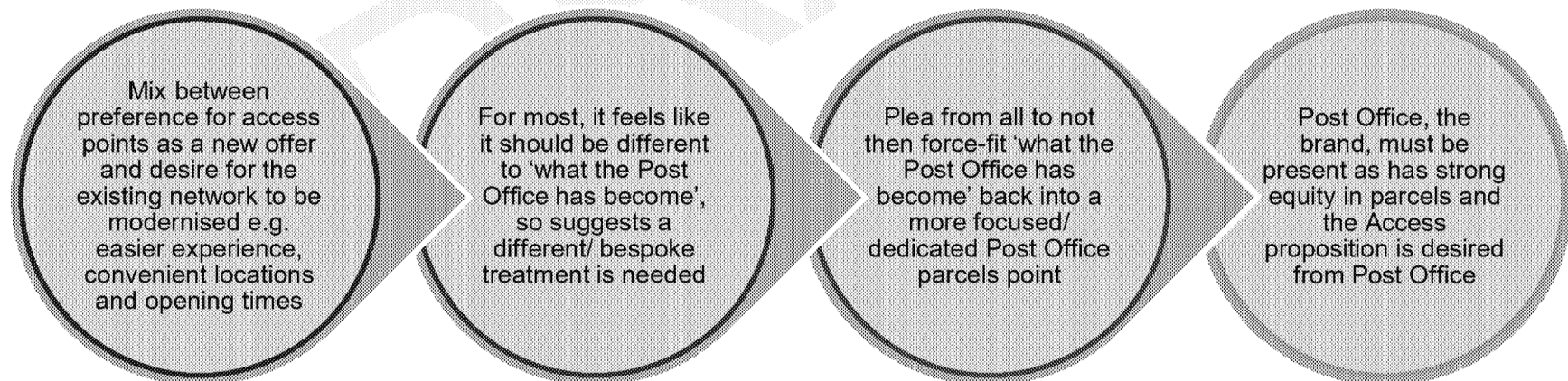
- Royal Mail/Post Office prices seen as prohibitive for anything outside of a small, light parcel vs. the competition
- Competitors seen as cheaper than PO for higher weight steps (and sizes), with straightforward pricing (especially among SMEs)

LARGE SCALE NETWORK DEVELOPMENT: OPERATING MODELS

... and suggest customers will support new operating models and ND



- 1 Interest sparked by access propositions (particularly among those not currently using competitors). A competitive offer, bringing Post Office in line with the rest of the market
- 2 Perceived to be a quick, convenient and easy way to send/receive parcels. Enables 'mission' to be combined
- 3 Additional interest after discovering service is by Post Office. High regard and high trust for Post Office and Royal Mail



LARGE SCALE NETWORK DEVELOPMENT: OPERATING MODELS

However, delivery of these operating models requires RMG collaboration

NOT EXHAUSTIVE

Areas for collaboration

- **Commercial alignment** is required for RMG and POL to work together at pace to deliver Network Development
- **Online mails solution.** Customers will need a clear online channel to begin mails journeys. RM and POL must agree on which online solution (RM or POL) is right for customers
- **Weighing and sizing items** complicates and elongates the process for customers and operators. It also increases hardware / equipment
- **RM fee structures paid to POL** do not drive the same behaviours. Fees paid to POL do not support shared objectives. Per transaction fees incentive POL to increase volume and RM to increase revenues per item
- **Collecting parcels from new Post Office access points** may incur additional costs for RM who will look to pass these on to POL
- **Track and Trace and labelling.** Track and trace connectivity and barcode generation capabilities will need to be established to a specification that meets both businesses requirements. This will allow RM to reduce stock label costs and give customers and operators a simpler quicker transaction
- **Remove /simplify back office processes.** Back office processes e.g. printing paper despatch reports for secure mail handover is time-consuming for operators and may incur additional hardware costs.
- **Segregating parcels** takes up space and takes additional time for retailer

Potential actions

- Work with RMG at the highest level to agree on shared strategic benefits of rolling out Network Development, and creating the right incentives for both organisations to work together at pace to deliver ND
- Agree online solution to be offered
- RM have agreed to remove the weighing requirement for Returns (for trial only).
- Use trials as a test bed for not weighing (monitor impact on RM revenue) to build case for removing this requirement longer term..
- Investigate other methods e.g. revenue protection elsewhere (e.g. at hubs or by RM) and adopting a sampling approach
- Renegotiate fee structures with Royal Mail Group.
- Map new locations against current RM collection points e.g. pillar boxes, business collections
- Allow sub-postmasters to collect from access points (hub and spoke model)
- Work with RMG to connect CDP to RM track and trace systems and enable barcode generation
- For Home Shopping Returns, track RM roadmap to ensure all these items include an embedded barcode
- Work with RM to understand underlying requirements and provide easier, lower cost, and less labour intensive solutions which meet underlying requirements
- Segregation of parcels is performed post collection by Royal Mail or at Post Office hub.

LARGE SCALE NETWORK DEVELOPMENT: FUTURE NETWORK SIZE AND SHAPE

With these new operating models, initial network gravity modeling suggests that we could have a 2020 network of 27.5k branches



	Crowns	Mains	Locals	Light	Access Points	Community	Total
Number of branches in 2014	373	3,627	4,600	-	-	3,200	11,800
Number of branches in 2020	-	2,500	4,500	4,500	12,500	3,500	27,500
2020 net profit (£m)		55	47	29	21	-24	128
2020 contribution margin ¹		24%	39%	47%	49%	-23%	
2020 net margin ²		14%	23%	25%	33%	-55%	

- Economics focused on access points
- Local light model being developed, with current economics based on assumptions that Locals Light are simpler and hence cheaper than Locals

1 Contribution = Income - Agent Fees

2 Net Margin = Contribution - Direct operating costs, branch losses, branch churn costs, POL central support costs

NOTE: Does not include cost reduction in existing operating models - therefore margin comparisons for existing models and future models are not an exact comparison. Granular understanding of end state profitability for existing models will be developed next quarter

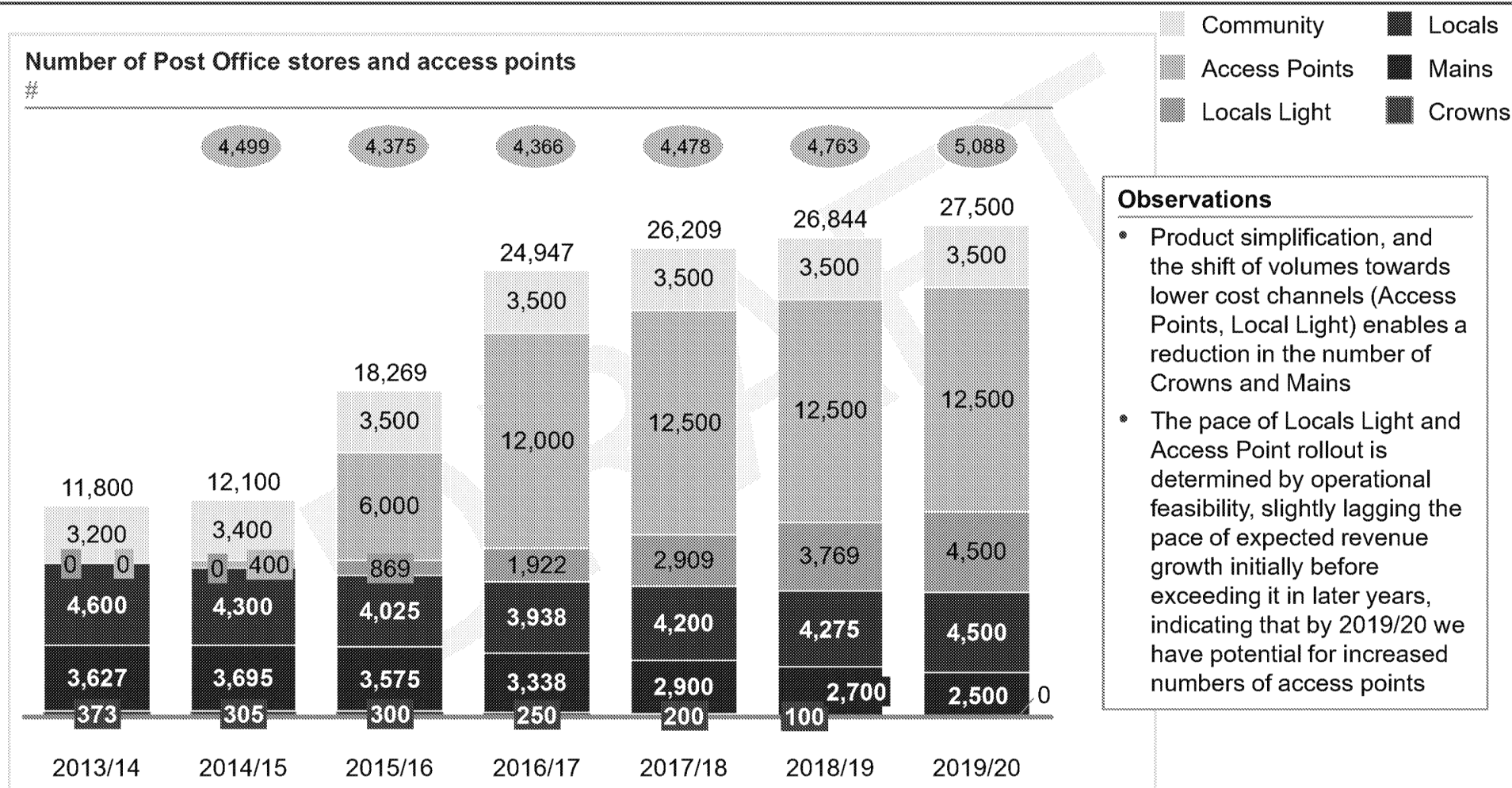
Source: Network Development economics; Post OfficeChannel P&L

LARGE SCALE NETWORK DEVELOPMENT: FUTURE NETWORK SIZE AND SHAPE

Over time, the network will shift away from Crowns and Mains towards the new, lower cost models



£# Average income per access point



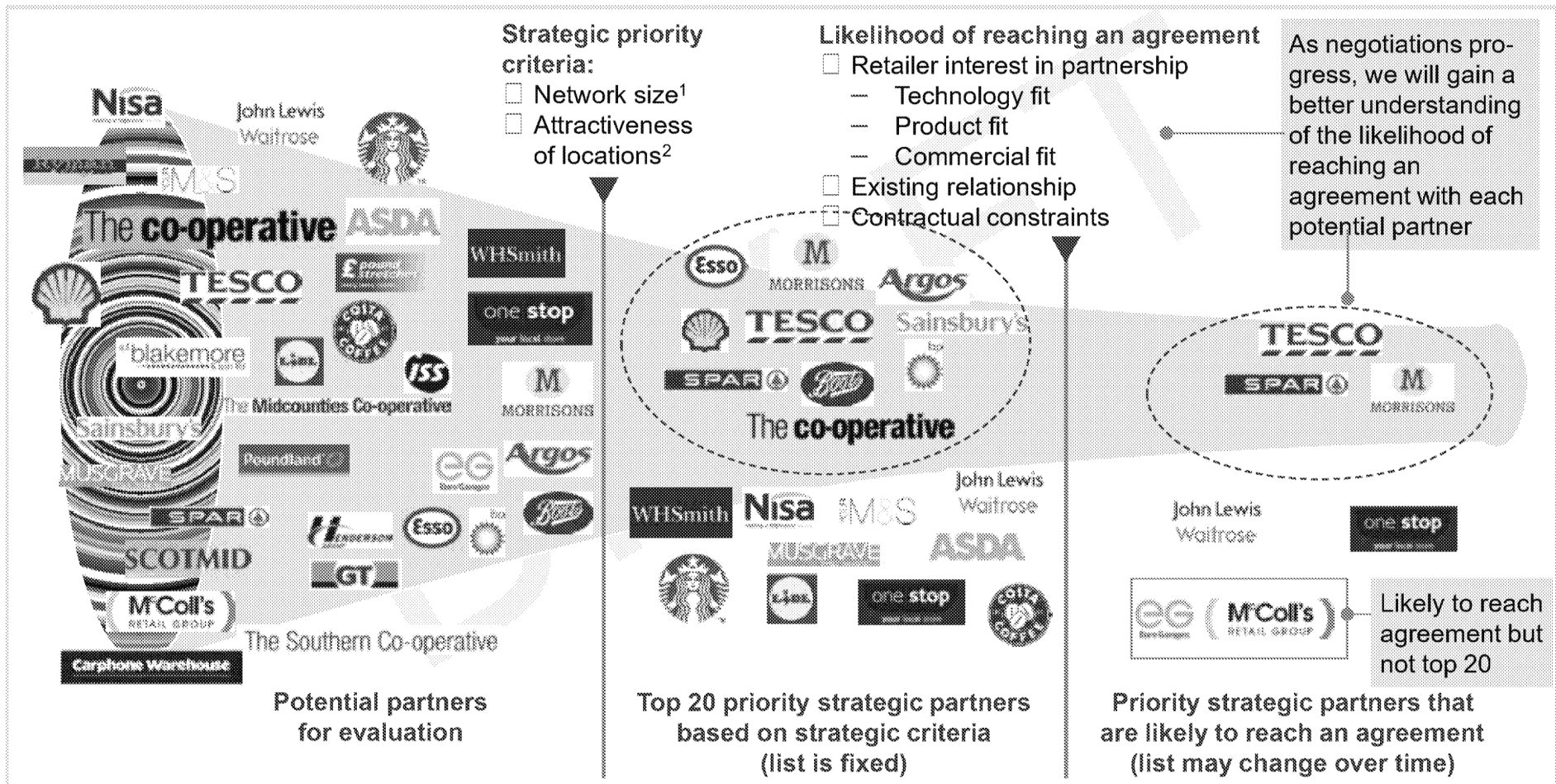
Source: Network Development economics

LARGE SCALE NETWORK DEVELOPMENT: PARTNERSHIPS

To deliver the extended network, we have prioritised retailers that would deliver customer convenience according to a set of criteria



○ Top 10 prioritised partners









1 Calculated from store numbers and footfall

2 Calculated from potential for cannibalisation, and increase in network coverage

LARGE SCALE NETWORK DEVELOPMENT: PARTNERSHIPS

By the end of the month, we will trial 177 sites, offering a reduced mails product set supported by Paystations



	Product set	Potential number of pilots	Additional information
	• Home shopping returns	• 79	• Small forecourts player for testing out of new formats
	• Home shopping returns	• 66	• Large multiple with scale
	• Home shopping returns	• 10	• Committed to convenience
	• Home shopping returns	• 6	• Spar branded estates
	• Home shopping returns	• 3	• Spar branded estates
	• Home shopping returns	• 13	• Typically convenience store formats
Total		177	<p>As additional products become simplified, we will increase the product range in these stores</p>

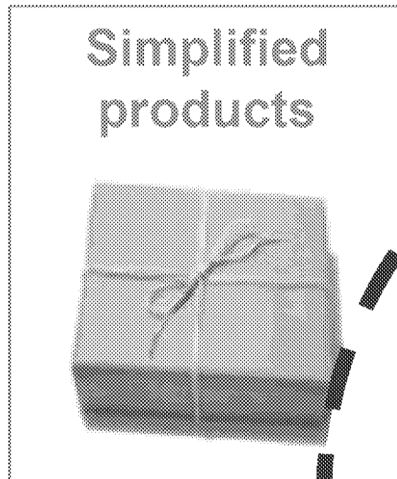
LARGE SCALE NETWORK DEVELOPMENT: PARTNERSHIPS

HIGHLY PRELIMINARY

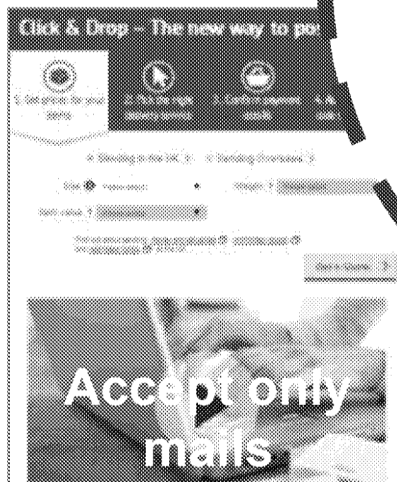


We are developing branding, marketing and communications materials that will help us share these changes with our partners

- Simplified range of mails products (returns, send, collect)



- Customers able to start journey online



Branding of "mini Post Office" is work in progress

**mini
POST
OFFICE**



- Access to services without assistance from retail staff



- Better customer proposition than competitors
- Improved customer satisfaction



Product Simplification:

Product simplification is a critical enabler for access points

What we need to achieve

- Simplification of key product journeys to increase both customer and operator convenience, allowing POL to offer a compelling customer and operator experience compared to other parcel providers.

What have we already achieved

- Prioritised a list of products for simplification, which will be delivered through low cost, portable hardware e.g. tablet using the Common Digital Platform.
- Mapped product journeys – meeting current constraints and ideal end-state – and developed wireframes.
- Started developing tablet solution
 - Android and Windows tablet with connected peripherals e.g. scales, scanner, printer.
- Resolved some key design issues (e.g. solution for postage label printing).

What will we achieve in the next 3 months

- Build and complete tablet prototype, offering a limited range of mails products:
 - Home Shopping Returns
 - Click and Collect
 - 1st and 2nd Class with/without Signed For (purchased using Click & Drop)
 - Special Delivery by 1pm (purchase using Click & Drop)
- Technical and user testing of tablet.
- Begin live roll out of tablet solution as a trial (end October 2014).

What will we achieve by the end of 2014/15

- Further simplification of selected mails journeys – a radical simplification for customer and operator in collaboration with Royal Mail e.g. removal of weighing in access points.
- Develop online journey to rival competitors'.
- Simplify the bill pay and e-top up product journeys for customers and operators (those products to be included in access points).

Risks

- **Technology risk:** requirement to integrate CDP and Track & Trace leads to delays implementation of product journeys beyond 1st and 2nd class postage, impacting commercial viability of tablet solution in phase 1. This risk is controlled
- **Stakeholder risk:** fundamental misalignment of RMG and POL commercial interests, and / or lack of engagement leads to delays in radical simplification of mails products (e.g. remove obligations to weigh and size items in access points), resulting in delays to closing deals with retailers and lower than expected customer demand, with a knock on impact on ND roll out and profitability. This risk has inadequate control
- **Stakeholder risk:** lack of RMG and POL agreement on ownership of the front end customer journey leads to lack of agreement on POL's Click & Drop as the online customer channel for POL, resulting in the need to redesign processes built in phase 1 of product simplification (these currently assume Click & Drop as the channel for purchasing 1st, 2nd Class and Special delivery), and hence, delays in the programme. The risk is inadequately controlled

PRODUCT SIMPLIFICATION



We are making good progress delivering simpler and quicker transactions for our operators and customers

Priority products for simplification

- Home Shopping Returns
- Click and Collect
- Purchased via Click & Drop:
 - 1st and 2nd Class with / without Signed For
 - Special Delivery by 1pm

The new customer journey**At home**

- Customer chooses their postage online using Click & Drop (for sending products)
- Customer is given a unique code per basket (not item)
- Customer is emailed payment receipt triggered by drop off

At access point

- Customer takes their parcel to the retail partner new access point
- Retail partner takes code, checks weight and size, prints label and CoP

**DEMO TODAY ON PROGRESS TOWARDS
NEW CUSTOMER JOURNEY (still includes
scales pending agreement with RMG)**

Beyond Network Development, we have also made significant steps towards capturing Mails eCommerce, improving SME services, and improving sales effectiveness



	What have we already achieved	What will we achieve in the next 3 months	What will we achieve by the end of 2014/15
Capturing eCommerce	<ul style="list-style-type: none"> Launched a Returns service with eBay expected to generate ~£7.6m in income this financial year Commenced integration with Metapack which may catalyse RMG collaboration in the Click & Collect market 	<ul style="list-style-type: none"> Launch a Click & Collect service with Amazon in September. 	<ul style="list-style-type: none"> Become the one-stop shop for e-commerce buyers and sellers, along each stage of the journey –from ordering, fulfilment, payment, financial services, collections and returns.
Sales efficiency	<ul style="list-style-type: none"> Launched unprecedented frontline training and engagement programme, increasing Mails income by 7% Up-skilled agents and Crown managers in sales coaching capability, beginning from July 2014 and spanning over 500 branches Put in place plan to speed up roll out 	<ul style="list-style-type: none"> Speed-up the roll out of training and engagement programme to reach 4,000 branches 	
SME service provision	<ul style="list-style-type: none"> Segmented SME market and identified target customers (microbusiness, <10 employees) Prioritised opportunities: initial focus on core mails offering Commenced deep dive on the opportunity areas (mails and FS), validating them from a customer and commercial perspective 	<ul style="list-style-type: none"> Design the proposition features and benefits, define the customer experience and build a business case for prioritised opportunities Build a more detailed prototype to validate with customers, produce a detailed go to market plan and detailed 5 year business case outlining investment requirements 	<ul style="list-style-type: none"> Roll out prototype across existing POL network

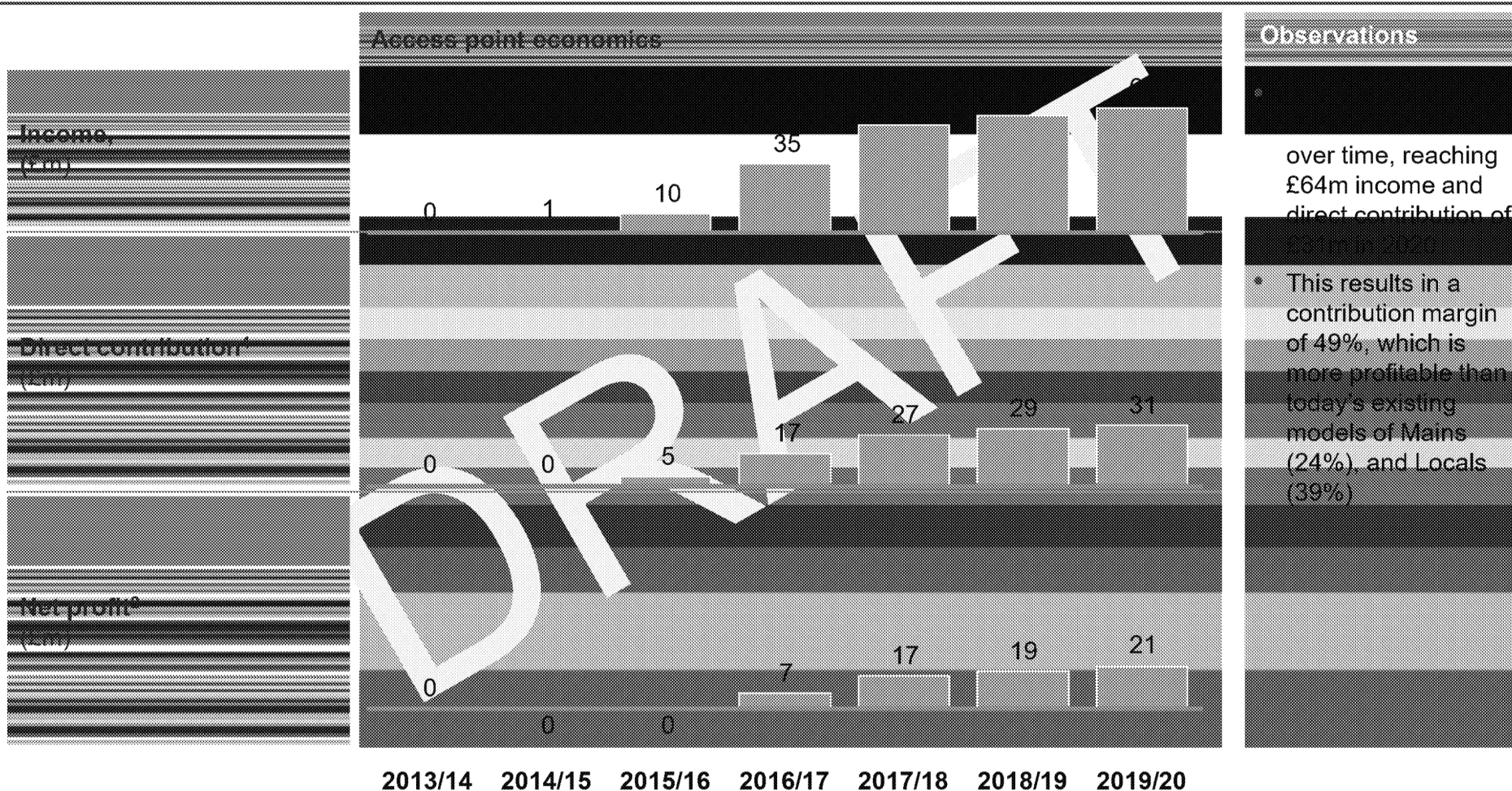


Appendix – Network Development commercials

DRAFT

LARGE SCALE NETWORK DEVELOPMENT: COMMERCIALS

Based on current estimates, access points will deliver c. £64m in income and £21m in net profit by 2020



1 Contribution = income minus agent pay

2 Net profit= income minus agent pay, minus direct operating costs (single site direct operating costs, branch losses), minus support operating costs (10 % churn cost, POL central support)

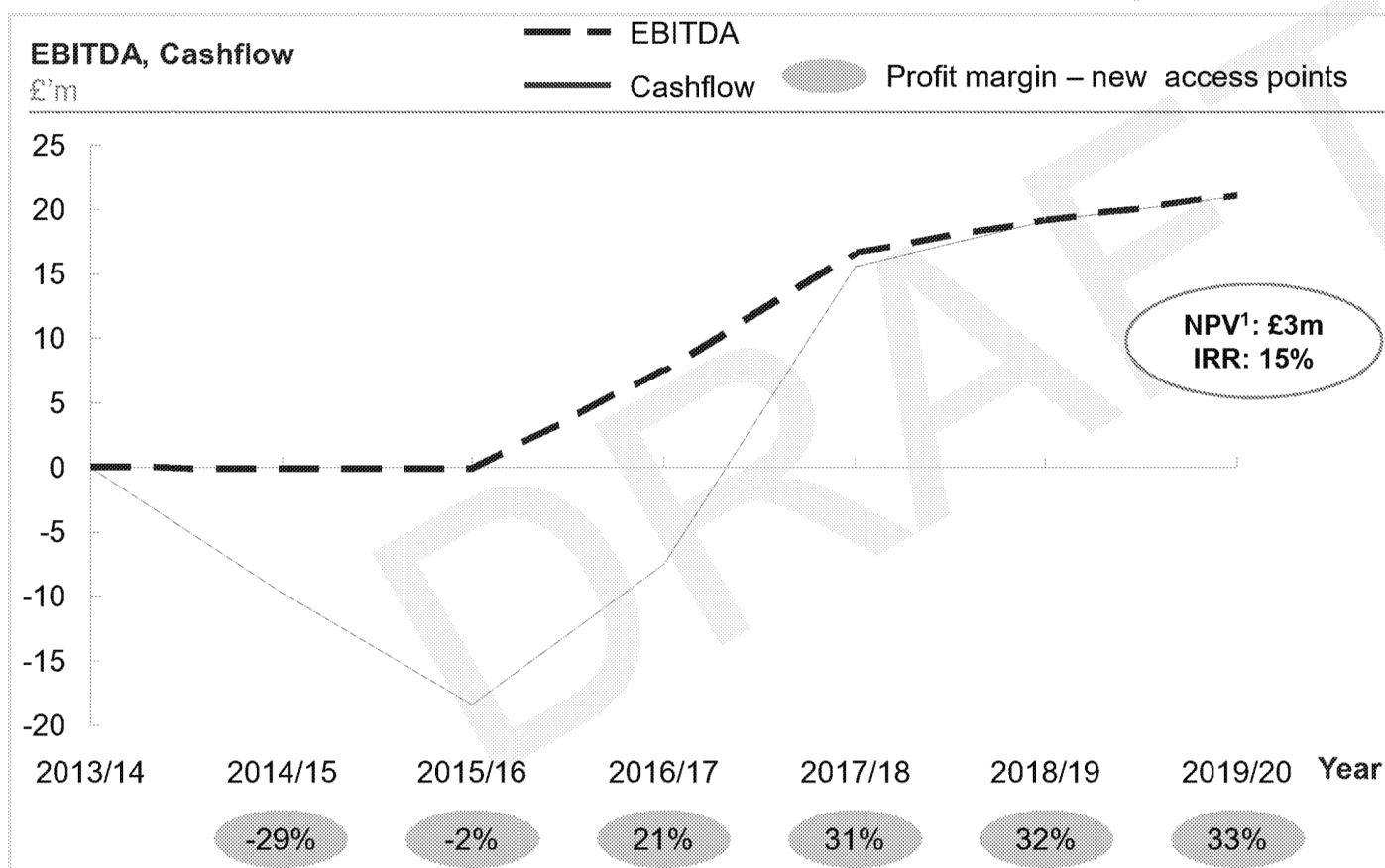
Source: Network Development economics

LARGE SCALE NETWORK DEVELOPMENT: COMMERCIALS



The access point network will have a positive NPV of £3m, with a payback period of 4 to 5 years

EBITDA / Cashflow for new access points (excl. Locals Light)



Observations

- Access points are profitable on a run-rate basis, but there are significant investment costs in capex, software development, programme delivery, etc
- Payback period is therefore 4 to 5 years, which is longer than typical POL payback period of 1 to 2 years
- However, some of the incurred costs will also benefit the core network (e.g., by positioning POL as most convenient postal service provider revenues to existing network increase)

1 NPV calculation assumes 12% discount rate, no terminal value, on 2014/15 to 2019/20 cashflows

Source: Network Development economics

LARGE SCALE NETWORK DEVELOPMENT: COMMERCIALS



Access Point Network P&L: Network support costs total nearly £1m per year, and churn costs amount to ~£2.5m

£m

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Comments
Income	-	0.59	9.84	34.84	54.47	59.54	63.60	12,500 access points by 2020 generating £5k each, with 6 month ramp up for branch to realise full run-rate income
Agents Pay	-	(0.30)	(5.04)	(17.83)	(27.89)	(30.51)	(32.68)	51% of POL income from RM paid to agents, relative to 61% in Locals & 76% in Mains
Direct Operating costs	-	(0.21)	(3.14)	(6.29)	(6.55)	(6.55)	(6.55)	£524 per branch, including hardware replacement (£176), online transaction costs, software security, consumables (see single branch P&L)
Branch losses	-	(0.00)	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)	Allowance for losses in branch, matching branch losses to income ratio of Locals in 2013/14
Direct Operating Profit	-	0.08	1.64	10.71	20.01	22.46	24.36	
Churn costs	-	-	(1.18)	(2.36)	(2.46)	(2.46)	(2.46)	10% churn of branches at £1,969 per branch, including sales team costs (£781); branch setup investment (£1,167); equipment recovery from closed branch (£21)
POL Support	-	(0.25)	(0.65)	(0.91)	(0.91)	(0.91)	(0.91)	FTE cost required for support from contracts management (1 FTE); Payroll (10 FTE); Contact centres (7 FTE)
Access Profit op. profit	-	(0.17)	(0.18)	7.44	16.64	19.09	20.98	
Branch Setup Investment	-	(0.47)	(6.53)	(7.00)	(0.58)	-	-	£1,167 per branch inc. upfront hardware costs (£606); signage (£295); local mktg (£200); off-site commissioning (£66) (see single branch P&L)
Program Implementation Team	-	(1.09)	(1.67)	(1.57)	(0.01)	(0.01)	(0.01)	FTE resources required to support project implementation
Program Control	-	(4.18)	(0.60)	(0.25)	-	-	-	FTE resources required to support program management office
Software development (Product Design)	-	(3.44)	(4.97)	(1.55)	-	-	-	Cost to develop simplified product journeys through CDP software on tablets over first 3 years of program
Sales team (multiples)	-	(0.11)	(0.40)	(0.20)	(0.20)	-	-	40% of access points in multiples (4,900 by 2020), 5 dedicated sales FTE until March 2016, 2.5 FTE to complete roll-out
Sales team (independ.)	-	-	(4.00)	(4.22)	(0.22)	-	-	60% of access points in independents (7,600 by 2020), ~11 visits required to sign 1 branch (accounting for unsuccessful signups) ¹
Network modelling	-	(0.05)	(0.10)	(0.10)	(0.05)	-	-	2 FTE resources required to support network modelling during roll-out
Customer research	-	(0.25)	-	-	-	-	-	Customer research costs only, other marketing costs for in single branch P&L
Total CAPEX	-	(9.58)	(18.27)	(14.88)	(1.06)	(0.01)	(0.01)	
Total Cashflow	-	(9.7)	(18.5)	(7.4)	15.6	19.08	20.97	

¹ Assumed to match current NT excluding scoping, no business plan, no interview, no ergonomic or disability requirements, no physical deployment engagement and no CF involvement

Post Office®

IN THE STRICTEST COMMERCIAL CONFIDENCE

Source: Network Development economics

LARGE SCALE NETWORK DEVELOPMENT: COMMERCIALS

Single Access Point P&L: Access points generate £5k per annum, with profit of £2k

POL product revenues		Post Office	Retailer	Assumptions
Mails	£ p.a.	4,039	2,255	
• A. Home Shopping Returns	£ p.a.	1,060	815	• Assumes current MDA rates for Mails products, existing supplier rates for Billpay & e-top up
• B. Collections	£ p.a.	356	231	• Transaction volumes modeled from Network Gravity model accounting for 2020 Strategic Plan income
• C. 1st/2nd Class Labels	£ p.a.	2,296	1,071	
• D. Special Delivery	£ p.a.	178	90	
• E. International	£ p.a.	150	48	
Financial Services	£ p.a.	1,049	349	
• A. Billpay	£ p.a.	984	302	
• B. eTop up	£ p.a.	66	47	
Total Revenue	£ p.a.	5,089	-	
POL product agent fees				
• Mails	£ p.a.	-2,255	-	• Assumes 35p flat rate per parcel, POL Locals rates for billpay and etopup
• Financial Services	£ p.a.	-349	-	
Total agent fees	£ p.a.	-2,604	-	
POL product operating costs				
• Labour	£ p.a.	-	-775	• 20s per standard mails transaction; 60s per special delivery transaction; 1.5 hrstraining for 10 staff each year; £10/hr staff cost
– Retailer Wages	£ p.a.	-	-625	
– Ongoing Retailer Training	£ p.a.	-	-150	• Assumes 2 yr lifetime for tablet (£100), 4 year lifetime otherwise
• Hardware Maintenance/Support	£ p.a.	-176	-	• £28 on consumables, £276 online transaction costs, £25 asset management costs, £18 user charging; POL broadband cost (for retailer)
• Ongoing Operational Costs	£ p.a.	-347	-276	
Total Operating Costs	£ p.a.	-524	-1,051	
POL PRODUCT PROFIT (LOSS)		1,961	1,552	
Retailer revenue uplift from footfall	£ p.a.	-	6,228	• 64% of customers are new to store, 50% make an in-store purchase; £3 average basket size; 25% gross profit margin for retail (assumptions in line with Collect+ public data on revenue uplift)
Retailer Product Costs	£ p.a.	-	-4,941	
RETAILER PRODUCT PROFIT (LOSS)	£ p.a.	-	1,557	
TOTAL PROFIT (LOSS)	£ p.a.	1,961	3,109	
Upfront Investment				
• Hardware	£ p.a.	-672	-	
– Upfront cost	£ p.a.	-606	-	
• Tablet + secure docking station	£ p.a.	-300	-	• £200 for tablet, £100 for docking station
• Scanner & card reader	£ p.a.	-78	-	• £48 for scanner, £31 for card reader
• Label printer	£ p.a.	-227	-	• All hardware costs benchmarked to EUC
– Access point commissioning (delivery)	£ p.a.	-66	-	• Off-site commissioning costs
• One-off Operational Costs	£ p.a.	-495	-	• Signage (£295), leaflets (£200)
Total upfront investment	£ p.a.	-1,167	-	

LARGE SCALE NETWORK DEVELOPMENT: COMMERCIALS

Given high levels of uncertainty, we have also assessed the commercial impact of major risks, as well as additional upside from other levers



○ Unchanged from base ○ Lower than base ○ Higher than base

		Description	Scenario assumptions	2020 EBITDA	NPV	Single Access Point Profit Margin
Base Case		• Most likely scenario, based on evidence today	• As in previous pages	20.99	2.64	39%
Major risks	Royal Mail	• Income: Downside in RMG payment to POL for access point products, due to rebalancing of payments across entire product portfolio	• For the access point network to breakeven on NPV, POL can at most a 6% reduction in RMG income	19.75	0.00	31%
			• For the single site access point to break even, POL can tolerate at most a 49% reduction in RMG income	(6.78)	(55.60)	0%
		• Costs: Lack of collaboration by RMG could increase costs	• Additional £1,485 operating costs and £325 investment costs per branch to be borne by POL and retailer ²	10.92	(28.64)	23%
	Transaction Volumes	• Variance in transaction volumes due to market movements, operation excellence, etc	• 76% decrease in transaction volumes on base case ¹	(1.78)	(43.57)	10%
Other levers			• 41% increase in transaction volumes on base case ¹	30.79	24.26	44%
	Shared development costs	• Product development costs shared across POL, as benefit accrues to entire network	• £10m of product development capex allocated to core POL	20.98	10.77	39%
	"Start-up" Operating model	• Further reduce all operating, investment and program costs to a minimum, as if this were a start-up business	• Reduction of 14% operating cost, 27% upfront cost from: No costs for consumables; branch commissioning; branch user charges; tablet management; network modeling; customer research; 50% reduction in cost for marketing	22.26	9.60	45%
	ePOS integration	• Development of ePOS integration eliminates need for hardware capex and maintenance costs	• ePOS integration in place for 50% of multiple partners (20% of access point network); at £925k development costs (£370 per branch), replacing £1,167 of investment and £176 of operating cost per branch	21.42	4.99	39%
	Low cost sales force	• Radical change in field team model to support roll-out to independents, e.g., online only support	• 50% reduction in independents sales force costs	21.47	7.16	39%

31

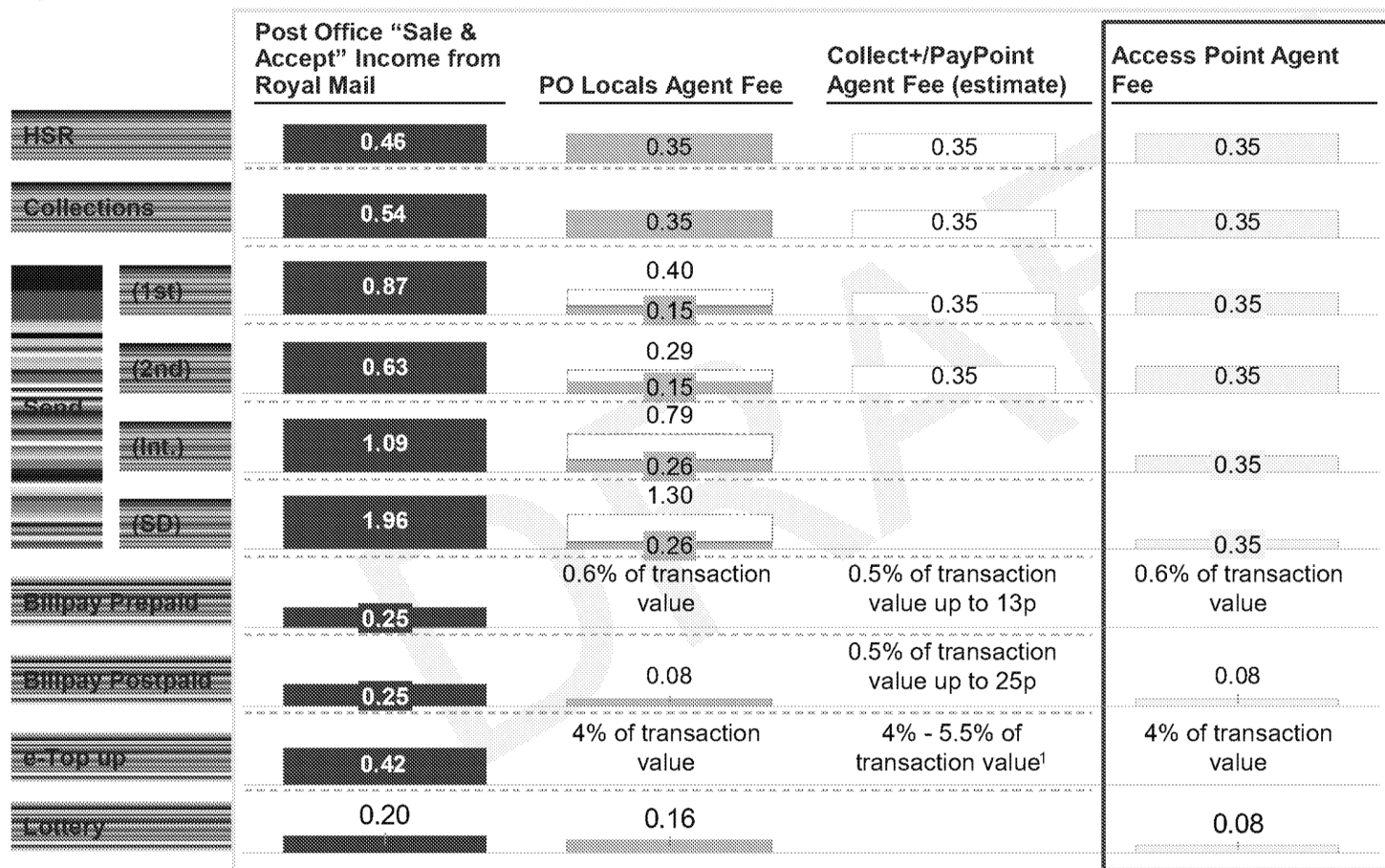
1 See backup on transaction volumes for detailed scenario assumptions; 2 See backup on Royal Mail costs for detailed scenario assumptions

LARGE SCALE NETWORK DEVELOPMENT: COMMERCIALS

Royal Mail: Our base case assumes that POL will receive the full “sale and accept” income from RMG, and pay market rates to agents to remain competitive



£ per transaction

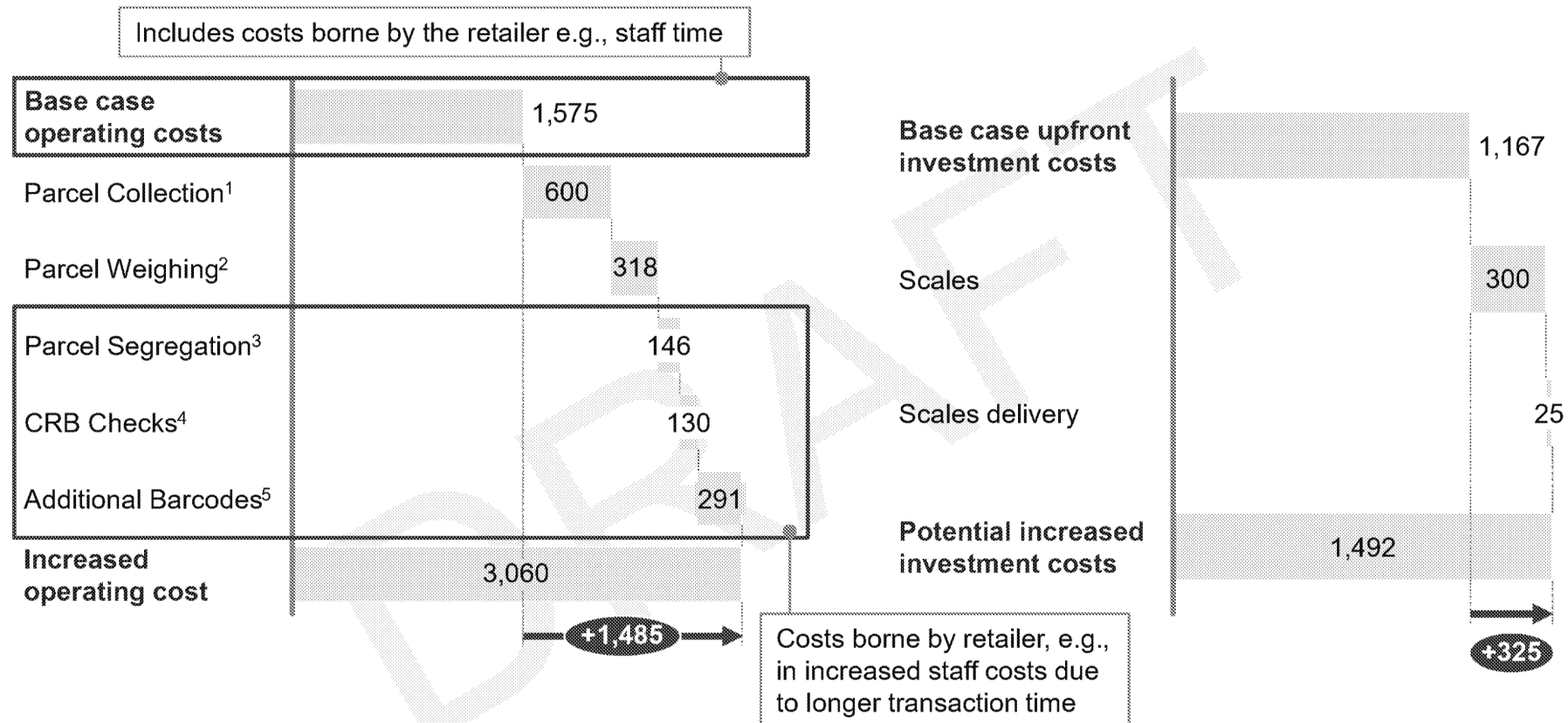
☐ Sale & Accept ☒ Accept only


- We estimate market rates to be around 35p per parcel, and therefore agent fees will match that; this is lower than the ~44p weighted average per parcel POL pays to existing Locals
- However, profitability depends on POL receiving the full “sale and accept” income from RMG, as we assume that customers will use our online platform
- Should POL income decline as part of overall pricing renegotiation with RMG, agents pay and profitability will be affected

Source: Post Office income factors, Post Office estimates of agent fees based on public data and feedback from retailers and clients

LARGE SCALE NETWORK DEVELOPMENT: COMMERCIALS

Royal Mail: Lack of collaboration by Royal Mail could increase operating costs by £1,485 and investment costs by £325 per access point, to be borne by both POL and the retailer



1 If the number of additional collection locations exceeds 10% of current as permitted through MDA (i.e., over~1000 new collection points), Royal Mail may charge up to £600 per new collection point;

2 Weighing introduces scales (£173 maintenance & ongoing replacement cost on top of investment;) and ~5s additional transaction time (~£146p.a. assuming base case transactions)

3 Adds ~5s transaction time (~£146 p.a.); 4 £26 per CRB check, ~5 staff per year; 5 Adds ~10s transaction time (~£291 p.a.)

Source: Single Access Points Economics Model

LARGE SCALE NETWORK DEVELOPMENT: COMMERCIALS

Transaction volumes: High and low cases for transaction volumes were developed based on public data on PayPoint/CollectPlus volumes, and Post Office data on Locals



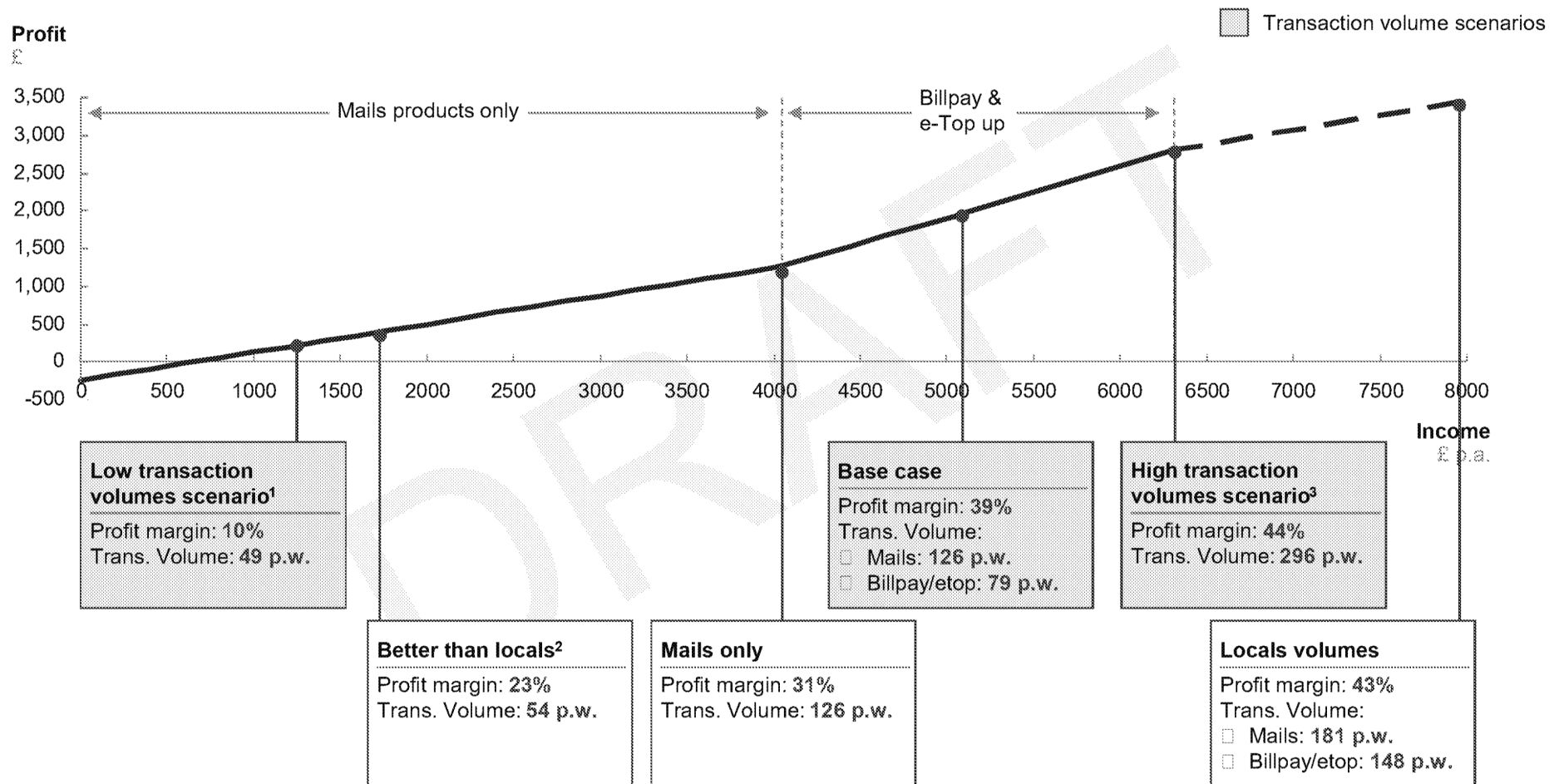
	Benchmarks		Sensitivities		
	PP PayPoint collect+	POST OFFICE LOCALS	Low	Base	High
Mails	49	181	49	126	126
Billpay and e-Top up	300	148	N/A	79	170
Total transactions	348	329	49	206	296
Source/assumptions	<ul style="list-style-type: none"> 300 Billpay and etopup transactions per week based on Paypoint website (8m reported customer visits for 26,700 paypoint outlets") Based on sample transaction volumes from 24 post office locals in June 2014 Volumes include <ul style="list-style-type: none"> Billpay, etopup, Selected mails (1st and 2nd class labels accept only, HSR, Click and Collect, Airmail) Assumes mails volumes equal to Collect+ Assumes no Billpay or etopup (e.g., if host retailers already providing this service) Assumes mails volumes based on latest network gravity model Assumes Billpay and etopup market share is unchanged but distributed over greater number of branches and access points (25k is 2020 size of network) Assumes mails volumes based on latest network gravity model Assumes POL regains market share in Billpay and etopup and grows revenues to £50m in 2020 				

Source: Paypoint website; Annual reports; Sample of 29 news agents

LARGE SCALE NETWORK EXTENSION: COMMERCIALS



Transaction volumes: Even if transaction volumes fall by 50%, access point profitability will be better than Locals today



¹ 76% decrease in transaction volumes on base case, assumes only HSR, Collections, 1st/2nd Labels; ² Assumes full Basic Mails+ product set; ³ 44% increase in transaction volumes on base case
Source: Single Access Points Economics Model

LARGE SCALE NETWORK DEVELOPMENT: COMMERCIALS

HIGHLY PRELIMINARY

Relative to the “do-nothing” scenario, network extension will improve EBITDAS by £26m in direct benefit, with additional upside of £112m from extending product simplification through the network


Incremental direct benefit, 2020
 £m

		Description
Mails income defended in Access Points	51	• Direct Mails income through 12,500 new Basic Mails+ Access Points
Additional Mails income due to "Network Effect"	35	• Mails income through existing network (Mains, Locals, Locals Lights, Community) as a result of Mails income
Mails income defended (June Board)	86	• £86m income recovery enabled by Network Development (£4m from collections, £16m from returns, £52m from postage, £14m from reducing failed deliveries)
Additional upside from Billpay income in Access Points	13	• Direct Billpay & e-Top up income through 12,500 new Basic Mails+ Access Points
Access Point network costs	43	• Opex cost of new Basic Mails+ Access Points
Existing network costs	30	• Weighted opex cost of existing network to deliver £35m additional Mails income due to "Network effect"
Net direct benefit	26	

Indirect benefit / benefit partially attributable to Network Development, 2020
 £m

		Description
Channel shift benefit	14	• £113m of revenue shifts from existing branches (Mains, Locals, Community) with weighted average opex of 88% to new branches (Local Light) with weighted average opex of 75% (exc. Income due to "Network effect")
Product simplification benefit	98	• Assumes a 20% saving on agent fees in Mains, Locals, Community, and Local Lights
Indirect benefit partly attributable to ND	112	

Source: Network Development economics; team analysis

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POST OFFICE LTD BOARD**Digital update - September 2014****1. Purpose**

- 1.1 The purpose of this paper is to give a brief update on progress against the digital initiatives shared at the June board meeting.

2. Summary

- 2.1 **Common Digital Platform:** All activities aligned to ebusiness/RMG separation **on track**.
- 2.2 Digital trials in support of branch of the future concepts mobilising Sept/Oct.
- 2.3 **Design Lab** at Southbank University opened.
- 2.4 Digital strategy work being scoped to **align** with key business transformation programmes.

3. Activities completed

Update on key initiatives completed.

Initiative	Status	Next steps
CDP Release 2 – Integration of new content management system. Delivery of core architecture. CDP elements of mails online.	Completed in July.	N/A
CDP Release 3 - Full, production ready platform released.	Completed in August.	N/A
Southbank University Design Lab	Opened in July and hosting stakeholders from board, exec, stakeholders, business teams.	Fully operationalise Design Lab to act as working prototype branch of the future.

4. Activities/Current Situation

Update on key initiatives in progress.

Initiative	Status	Next steps
Mails Online / Click and Drop	Final changes being made from further customer testing.	Soft launch to model office Sept 15. Live to customers Oct 6. NB still subject to Royal Mail approval.
CDP Release 3.1 - Separation of Rod Fishing Licences.	On track for go live 08/10/2014.	Completion of testing and business readiness steps.

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CDP Release 4 - Use of www.postoffice.co.uk on the Accenture platform before final separation date from Royal Mail.	Agreed with Royal Mail and on track for delivery as part of CDP Release 4 at end October.	Joint management by Post Office/Royal Mail Separation team to engage Capgemini and Accenture to implement.
CDP Release 4 - redevelopment and rehosting of Post Office content and standalone website tools on CDP.	Content migration on track.	Completion of development ready for testing. Completion of business readiness plan ready for go live.
CDP Release 4 – redevelopment and rehosting of Branch Finder on Accenture platform.	Development on track. Some challenges re. fixing issues with existing implementation.	Assessment of underlying data structures to ensure accurate opening hours can be displayed.
Wi-fi in branches	Installation of Wi-Fi capability completed across 17 branches. Not yet live to customers.	Customer facing Wi-Fi live by early October. Agree additional 8 locations (including Supply Chain).
In branch Queue management	Trail to be limited to Hitchin branch in first instance.	Implement into Hitchin by mid-October.
Network Development	Prototyping under way to support extension and new access points.	Working prototype due end September.

New Initiatives	Status	Next steps
Completion of digital/omni-channel strategy	Replanning to ensure alignment with Business Transformation and Network development work streams and mobilise late September.	Align with Business Transformation and Network development work streams and mobilise late September.
Website and product application optimisation	Proposals being put together to improve conversion rates of online application forms	Target to begin work mid-late September to drive in year benefit.
Queue Sensing in-branch (2 suppliers)	Proposals currently being agreed	Install into 20 branches by end of October

5. Next steps

- 4.1 No approvals needed.
- 4.2 A full update will be given at November board

Martin George
01 Sept 2014

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POST OFFICE LTD BOARD

SME Proposition Strategy Update

1. Purpose

The purpose of this paper is to:

- 1.1 Update the Board on progress since June.
- 1.2 Provide timelines for delivery and content for November Board.

2. Background

- 2.1 Post Office has an estimated 2 million (40% of total market) SME's visiting the branch network on a weekly basis and this customer group contributes 15% of total revenue.
- 2.2 SME revenue is primarily driven through mails services, though limited customer data is held due to a limited number of these customers registering for Drop & Go.
- 2.3 Other products and services are available for SME's but have not historically been launched based on customer/market need. As a result, Post Office does not have a cohesive and relevant proposition for this market and are is not currently seen as a credible business services provider.
- 2.4 Given the size of opportunity and scope that Post Office has to win in this market, a project was started in May consisting of four phases and follows a proven and highly iterative framework to confidently deliver a proposition set; firmly based on customer need, market opportunity, internal/partner capability and commercial value.
- 2.5 In June we presented to the Board a hypothesis for our SME strategy based on early stage insight along with the forecast commercial value for this segment from 2014 - 2020.

3. Activities/Current Situation

- 3.1 The process we are following is highly iterative, keeping the customer at the heart of our development. Below is a summary of the four phases of the project, associated timings and what has been completed to date -
- 3.2 **Phase 1 (complete)** – the aim of this phase is to segment the SME market and understand who our target market is, gather customer and market insight and identify prioritised opportunities for the Post Office. Outputs of this phase are detailed below and within the attached executive summary deck:
 - We will be targeting micro businesses (<10 employees)
 - Specifically focus on start-up, lifestyle and growth segments, with a particular focus on the e-commerce vertical

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- High level insight told us that SME's do not see the Post Office as a credible business service provider and that we must focus on getting our core mails offering fit for purpose before being considered for wider products and services, meaning that pricing, engagement, acquisition and servicing in mails must be the focus for 2014/15
- This will give us the platform and portfolio of customers to credibly deliver a Financial Services proposition to the market
- Based on depth interviews with SME's, market opportunity and internal ideation, Mails and Financial Services were the areas prioritised

3.3 **Phase 2** – The aim of this phase is to deep dive on the opportunity areas (mails and FS), validating them from a customer and commercial perspective and identifying concepts that can be tested with customers. Components of this phase are detailed below:

- Deep dive customer research on mails and FS with over 30 SME's
- Proposition co-creation sessions with over 20 SME's
- Identify commercial opportunity for each area
- Generate ideas and testing with customers to inform proposition design
- **Completion date – 12th September**

3.4 **Phase 3** – this phase will explore the concepts identified further, to design the proposition features and benefits, define the customer experience and build a business case. Outputs of this phase are detailed below:

- Stretch and build initial concepts and convert them to a detailed proposition set in collaboration with Bank of Ireland and Royal Mail
- Bring the proposition to life through customer experience design
- Deliver a working prototype of the propositions using a combination of visual storyboards, clickable wireframes and collateral mock ups to test with customers
- Identify commercial implications and capability gaps (internally and partners)
- Build a business case and identify cost drivers
- **Completion date – 3rd October**

4.5 **Phase 4** – this phase will build a more detailed prototype to validate with customers, produce a detailed go to market plan and detailed business case outlining investment requirements. Outputs of this phase are detailed below:

- Identification of minimal viable proposition and detailed roll out plan
- Go to market plan and implementation roadmap
- Defined customer marketing, channel and distribution strategies
- Fully functioning prototypes for the user experience and user interface which will be fully tested and enhanced through multiple rounds of customer testing in collaboration with Bank of Ireland and Royal Mail
- 5 year commercial case, including investment requirements
- **Project completion date – 31st October**

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5. Commercial Impact/Costs

- 5.1 £95,600 already spent for delivery of first phase.
- 5.2 A contribution of £95,600 from Eagle funding (Bank of Ireland) has been approved and budgeted for.
- 5.3 A further £222,800 is required to complete this project.
- 5.4 The proposition framework used for this project will be embedded into the Post Office, removing the need to work with an external consultancy firm on future proposition development and any associated costs.
- 5.5 Detailed commercial impact and development costs will be determined through the process and will form part of the final output.

6. Key Risks/Mitigation

- 6.1 To be determined through the process and detailed in final output.

7. Recommendations & Next Steps

- 7.1 The SME proposition strategy work will be presented at the November Board session for final approval.
- 7.2 The presentation in November will clearly articulate the SME proposition strategy, the 5 year commercial impact, risks and dependencies, go to market plan, delivery roadmap and fully functioning prototypes to bring the propositions to life.

Martin George
3rd September 2014

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POST OFFICE LTD BOARD

Corporate Insurance Programme 2014/15

1. Purpose

The purpose of this paper is to:

- 1.1 Share the output of a review of the insurance position and recommend the basis for insurance renewal for the period 1 October 2014 to 30 September 2015; and
- 1.2 Update on the appointment of an in-house insurance and risk management professional to manage the insurance programme, in light of the current cost reduction programme.

2. Background

- 2.1 This is the third anniversary of the PO stand-alone Insurance Programme following the split from the RMG insurance programme in September 2012.
- 2.2 PO has worked with insurers on the largest risks (Crime, General Liability and Motor) in order to keep Insurance costs to a minimum whilst enjoying appropriate cover to meet our risks.
- 2.3 An insurance review has been commissioned to ensure that key risks are insured and to identify whether any enhancements to cover or premium savings can be achieved now we have improved risk and claims information.
- 2.4 PO has had no major claims in the last 24 months. This has enabled us to be more proactive with Insurers over pricing and coverage.
- 2.5 PO has built up discrete claims data over the past two years. Historically this was an issue because it was not possible to separate PO from RM's data.

3. Key Insurance policies

- 3.1 The key corporate insurances currently in place are (more detail at Annex 3):
 - Crime
 - Directors and Officers Liability
 - Property Damage/Increased Cost of Working
 - Terrorism
 - Employers Liability
 - Public Liability
 - Motor Fleet (Commercial and Private)
 - Cyber Liability (specific Government Contracts only)
 - Professional Indemnity (Government Contracts only)
 - Personal Accident/Travel
 - Special Contingency

4. Claims

- 4.1 This has been the second strong year for PO with regards to claims, with far fewer claims notified than envisaged in the last 12 months.

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- 4.2 It should be noted that PO now has clear claims procedures in place, with QBE handling all liability and motor claims. This has led to a substantial drop in amounts paid out in claims since RMG managed the process. Full details are attached in Annex 2.

5. Summary of Insurance Review

- 5.1 A review has been undertaken of all the major risks and relevant insurance policies. Full details are contained in Appendix 1, however in summary, the main findings of the review are:

- Our insurances are fit for purpose
- Some policies will not be renewed (Contractors All Risks)
- Looking at reducing deductibles where there is no impact on premium
- Leveraging our risk and claims data to reduce premium where possible
- We are obtaining quotations for Professional Indemnity Insurance across POL

- 5.2 The review will be updated to reflect the findings of the PWC report.

6. “In-House” Insurance Resource

- 6.1 As our risk profile changes and as we execute our strategy, it is important that, where possible, our insurances are aligned to our risks. Whilst our Insurance advisers and insurers provide support to us with our day to day requirements, consideration has been given to investing in a full time “in house” Risk and Insurance manager.

- 6.2 This post would enable us to constantly review our insurable and non-insurable exposures and also manage our external insurance partner relationships. Alongside this, we would be able to align our risk financing strategy to our internal risk register (where given the confidential and sensitive nature of the detail, this should remain internal) together with meeting our corporate governance responsibilities.

- 6.3 This role is in line with comparable companies of PO size and complexity. A strong candidate has been identified but as the cost would be c.£100k pa it is recommended that this decision is incorporated within Business Transformation.

7. Recommendation

The Board is asked to agree:

- 7.1 Renewal of insurance policies as set out in Annex 1.
- 7.2 Future renewal authority is delegated to Chris Day.
- 7.3 That the decision of recruiting dedicated insurance resource is incorporated within Business Transformation.

Chris Day
September 2014

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POST OFFICE LTD - INSURANCE REVIEW - AUGUST 2014

APPENDIX 1

RISK (currently insured)	Insurer/ Premium	Covering	Deductible	Additional Comments/Recommendations	Recommendation
PROPERTY DAMAGE	ZURICH £134,620	All loss or physical damage to POL properties as declared including Buildings and machinery, stock and contents and Increase cost of working (ICOW).	GBP1m each and every loss	Property risks have been strongly managed historically with no claim recorded. POL have worked with Insurers to upgrade Swindon's risk protection to help mitigate risk and bring into line with market standards. The coverage is essentially now catastrophe cover for POL's larger locations. Continuing with this insurance should be set against POL's risk appetite to meet a total loss of a large location (e.g.: Swindon).	Renewal negotiations with holding Insurer Zurich continue and we anticipate a 6 % reduction in premium on expiring terms (circa 15% reduction against original 2013 premium). <i>Recommendation is to continue at Lowest premium.</i>
TERRORISM	POOL RE £52,821	This provides the "buy back" coverage to loss or damage to POL properties as a result of terrorism. (This is excluded under the standard property policies)	GBP1m each and every loss	POL could have a legitimate exposure through its parcel handling in branch, as well as being seen as a Government/high profile target. Consideration should be given as to whether this coverage is required across the POL insured estate (Crown Offices).	The premium for Terrorism is based on a pure formula of our sum insured (values). We are obtaining an alternative quotation from Lloyds which enables us to select the properties we wish to insure for Terrorism. <i>Recommendation is to only insure our locations above GBP5m in value (Large offices and Cash centres). We are anticipating that we could achieve at least a 10% reduction in premium against 2013 premium.</i>
CONTRACTORS ALL RISKS	ZURICH £6,478			It is debatable whether POL need this coverage, which is historic. Typically when refurbishment or construction work is carried out, the Contractor would purchase the coverage on behalf of the Employer (in this case POL).	<i>Recommendation is to NOT renew the policy this year.</i>
EMPLOYERS LIABILITY	QBE £251,750	Liability to employees for injury or disease arising out of, or in the course of, their employment	GBP250k each and every loss	This is a statutory requirement. There is a GBP50 million limit of indemnity.	PO are entering year two of a two year "Long Term Agreement" with insurer QBE. Whilst this would typically mean that the rates would remain unchanged, we have persuaded QBE to reconsider. <i>Recommendation is to continue at lowest premium.</i>
PUBLIC/PRODUCTS LIABILITY	QBE included above	Legal liability (loss injury or damage) to Third Parties arising out of business activities	GBP250k each and every loss	This policy has a GBP50 million limit of Indemnity. Whilst there have been few claims, it is important that coverage is maintained as it is felt that POL do have an exposure (and there is a requirement in a number of existing contracts that POL has this insurance).	As above
MOTOR FLEET	QBE £484,632	Legal liability for loss, damage, injury or death to third parties	GBP250k each and every loss	This is a statutory Insurance. Current policy is "Third Party" coverage only.	As above
CRIME	LLOYDS £808,780	Infidelity of Employees, all Property (as in financial instruments) of POL or any Third Party whilst in any POL premises or in transit. Forgery and alteration, counterfeit currency, damage to cash carrying vehicles, offices and contents, forged securities and interest receivable and or payable	GBP1m each and every loss	This is POL's largest Insurance spend and one that is managed carefully. This is a bespoke insurance that provides both First party (POL loss) and Third party Insurance for all cash and financial Instruments. The Bank of England treat POL in a unique way in that POL are required to purchase insurance to the FULL VALUE of the bank notes in circulation. Reduction in Limit to GBP400m (from GBP600m) is appropriate for renewal 2014.	We have reviewed our Insurance requirements with Supply Chain, who have agreed that a reduction in limit to GBP400m is acceptable and meets our risk exposure. Given the nature of the insurance, this reduction does not provide an equivalent saving on the premium. It is anticipated that we would achieve a 5% reduction in premium spend for reducing the limit and <i>recommendation is to renew at that premium.</i>
DIRECTORS AND OFFICERS LIABILITY	QBE £68,900	Covers the cost of compensation claims made against POL's directors and key managers (officers) for alleged wrongful acts.		This is a key risk and one that has been in place as a stand alone coverage since 2013 (previously with RMG).	We anticipate that renewal will be flat in terms of premium. Last year we had no retroactive coverage, however this year we have one year, meaning that this "tail" will negate a discount. We continue to negotiate with insurers however it should be noted that any discount would be below 5%. <i>Recommendation is to renew at that premium.</i>

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RISK (currently insured)	Insurer/ Premium	Covering	Deductible	Additional Comments/Recommendations	Recommendation
DIRECTORS AND OFFICERS LIABILITY	QBE £68,900	Covers the cost of compensation claims made against POL's directors and key managers (officers) for alleged wrongful acts.		This is a key risk and one that has been in place as a stand alone coverage since 2013 (previously with RMG).	We anticipate that renewal will be flat in terms of premium. Last year we had no retroactive coverage, however this year we have one year, meaning that this "tail" will negate a discount. We continue to negotiate with insurers however it should be noted that any discount would be below 5%. <i>Recommendation is to renew at that premium.</i>
PROFESSIONAL INDEMNITY (GOV CONTRACTS)	QBE £36,362	Legal Liability arising out of any negligent act error or omission in the course of business activities. This insurance provides cover for GOVERNMENT CONTRACTS ONLY	GBP250k each and every loss	To be reviewed against a POL wide policy. This is a contractual requirement. Was NOT purchased under RMG.	Negotiations with insurers continue. We are seeking between 5-10% premium reductions where possible as there have been no claims. It should be noted that this coverage <u>would be included within</u> any POL Wide policy and would be cancelled should we take up the wider option. <i>Recommendation is to renew at that premium initially, include PQMS when appropriate and rest of PO if premium is sufficiently attractive.</i>
PERSONAL ACCIDENT/TRAVEL	CHUBB £4,038	This policy provides Personal Accident and Business Travelcover, and extends to include sub postmasters and their substitutes and those who work under a franchise contract		This is standard coverage but has an extension that provides a payment to Sub Postmasters if they are injured or permanently disabled as a result of a hold up.	This is a small coverage within the portfolio and are anticipating a flat renewal. This is a minimal insurance spend against the benefit that is provided. <i>Recommendation is to renew at current premium.</i>
CYBER LIABILITY	LIBERTY £95,400	Cyber liability insurance covers both POL and contract partners against loss or damage caused by hackers, viruses and data theft. This insurance provides cover for the DVLA and Border Control contracts only		This coverage is purchased exclusively for the DVLA and Border Control Government contracts.	This coverage does not renew until April 2015.
SPECIAL CONTINGENCY	LIBERTY £11,872	Kidnap and ransom.		This is a historic insurance, confidential in its nature but it is considered that POL has a great enough risk to warrant the purchase.	We are reviewing the possibility of including this coverage within the CRIME policy as well as looking at alternative stand alone quotations. Discussions are ongoing. Unlikely to be any premium reductions on this separate policy as we are at minimum premium level for the risk.

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RISK (not currently insured)		Covering		Additional Comments/Recommendations	Recommendation
BUSINESS INTERRUPTION		Business interruption insurance covers the loss of income that a business suffers after a major Property loss		We do not believe that POL have an exposure at this time, however recommend that this be tested (Major loss scenario test) to identify if there any gaps/exposures.	<i>Recommendation is risk retained by PO.</i>
PROFESSIONAL INDEMNITY - POL WIDE		Legal Liability arising out of any negligent act error or omission in the course of business activities.		As PO's structure and business model changes, this coverage becomes more relevant, both commercially and contractually. With the arrival of POMS and replacement of BOI, there will be a perceived increase in risk around the financial products.	We have had preliminary discussions with the Market who have indicated that a GBP 10 million policy with a GBP1m deductible each and every loss would cost between GBP250-300k (However, PO would save GBP35K premium by "rolling in" the existing PI coverage within this). <i>Recommendation is risk retained by PO.</i>
EMPLOYMENT PRACTICES LIABILITY		Employment practices liability insurance covers wrongful acts arising from the employment process (e.g.: typical claims covered under an EPL policy would include: wrongful termination, discrimination, sexual harassment, and retaliation).		This coverage should be considered if there are any major staff or structural changes identified in the future as part of your long term strategy. Whilst there may not be a risk at this time, it is one to keep on the radar. This risk would not be picked up under any other PO insurance programme.	Whilst we have not approached the Market for a formal quotation, as a guide, we are advised that a GBP 5 million policy with a GBP150k deductible each and every loss would cost circa GBP75k. <i>Recommendation is risk retained by PO.</i>
CYBER LIABILITY - POL WIDE		Cyber liability insurance covers both POL and contract partners against loss or damage caused by hackers, viruses and data theft.		We believe that Data security and Data integrity is a key risk for PO. Whilst there are robust internal controls to manage this risk, serious consideration should be given to purchasing some level of Insurance protection in the event of a major data breach or "cyber" related incident.	We are seeking an "indication" from PO's existing Cyber insurers for a POL wide policy. Initially, we are looking at a quotation for a minimum GBP10m limit of indemnity. The premium should be balanced against the risk PO have within the business. <i>Recommendation to insure if premium not materially higher than existing cover.</i>
PROPERTY DAMAGE (assets below GBP1m)		All loss or physical damage to POL properties including Buildings and machinery, stock and contents and additional cost of working (ACOW).		Losses of any PO property below GBP1m not perceived to be business critical with enough capacity within the network to use alternative sites in the event of a loss. However, the aforementioned major loss scenario test would identify the robust nature of this strategy.	<i>Recommendation is risk retained by PO.</i>

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APPENDIX 2

Claims recorded under the POL insurance programme are as follows: All other policies are claims free

**Motor Fleet -
Claims Summary**

Policy Year	Number of Claims	Number of open claims	Number of closed claims	Total Reserve	Paid including fees	Total
2012	206	29	177	£96,980.94	£179,319.19	£276,300.13
2013	304	121	183	£265,148.92	£123,561.55	£388,710.47
Grand Total	510	150	360	£362,129.86	£302,880.74	£665,010.60

**Employers/Public
Liability Claims
Summary**

Policy Year	Policy Class	Number of Claims	Total Paid	Recoveries	Gross Incurred	Net Incurred
2012	Employers' Liability	7	£8,200	£0	£46,146	£46,146
	General Liability	17	£33,961	£0	£140,539	£140,539
	Total	24	£42,161	£0	£186,685	£186,685
2013	Employers' Liability	2	£360	£0	£20,394	£20,394
	General Liability	10	£10,352	£0	£43,252	£43,252
	Total	12	£10,712	£0	£63,646	£63,646
Total	Total	36	£52,873	£0	£250,331	£250,331

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APPENDIX 3**Brief synopsis of Insurance cover****1. Crime Insurance**

- 1.1 PO historically has one of the largest stand-alone Crime policies in the UK insurance market, insuring to a limit of GBP600 million, and is a requirement for membership of the Bank of England's Note Circulation Scheme. The policy covers all risk of crime including theft by employees. The policy carries a GBP1million excess and is insured by QBE and others. This is PO's largest external premium spend. Following a review with Supply Chain, we are able to reduce this limit to GBP400million for the forthcoming year saving a potential 5% of premium.

2. Property Damage/Increased Cost of Working/Terrorism.

- 2.1 PO has a Property Damage policy, insuring the full value of properties valued at above GBP1m. There is a GBP10 million increased cost of working limit. There have been no claims.
- 2.2 Zurich is the insurer and there is a GBP1million excess on the policy. Pool Re insures the Terrorism which mirrors the Property Damage policy.
- 2.3 We have obtained alternative quotations from several Insurers, the most proactive being Travelers who spent a day at PO Swindon and subsequently offered wider coverage, a training programme for PO staff at our insured sites and a saving of 15% over the original 2013 premium. Our existing insurers Zurich have subsequently offered a 11% rebate to reflect the risk improvement activity at Swindon to close the premium gap. We are anticipating a further 6% reduction at renewal. We are also looking at whether we are able to reduce the GBP1m deductible without cost and introduce an aggregate limit to cap PO exposure.

3. Combined Liability Insurance (Employers/Public Liability)

- 3.1 PO has a combined Liability programme from QBE, providing GBP50m of coverage on both Employers Liability and Public Liability. This carries a GBP250k excess. QBE handle the claims below the excess and is reimbursed by PO on a quarterly basis. This is a relationship that works well.

4. Motor Fleet Insurance

- 4.1 PO has two motor fleets (Commercial vehicles and Private Cars) both insured via QBE.
- 4.2 The policy is placed in the same way as the Combined liability (namely, with a GBP250k excess with claims below the excess paid by QBE and reimbursed by PO on a quarterly basis).

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5. Directors and Officers Liability

- 5.1 This policy provides full cover for PO directors and officers where they are sued as a result of a wrongful act, resulting from something that they are alleged to have done while acting as a manager of PO.
- 5.2 In addition, the policy will respond if there is an investigation into an act that they are alleged to have committed.
- 5.3 The policy currently has a limit of GBP60m. The insurance review looked at whether reducing this limit to GBP40m (saving approx. GBP20,000 in premium) was viable. As a large organisation, it is felt that the current limit of GBP60m is the minimum level that PO should have and therefore should be retained.

6. Professional Indemnity

- 6.1 This policy was purchased to meet the Government Service Contracts contractual requirements. The policy has a GBP10m limit and covers a breach of professional duty by PO resulting in a third party loss. The policy covers Civil liability, defence costs and expenses, libel and slander (committed by PO or any person employed by PO). The policy has a GBP250k excess. QBE are the lead insurer.
- 6.2 Our strategy, particularly in relation to our FI products, and the increased risks this brings to the organisation, means that we should consider purchasing Professional Indemnity insurance for the whole organisation. The review is underway and insurers have spent some time with PO assessing the exposures.

7. Cyber Liability

- 7.1 This insurance is purchased as a specific requirement for the DVLA and Border Agency contracts and is a broad cover, extending to breach of privacy, extortion, network security, as well as breach of data. This policy renews in April 2015
- 7.2 One of our key strategic risks relates to data protection and data integrity. The Insurance review has identified that consideration should be given to purchasing Cyber Liability across PO which would offer us a level of protection in the event of a significant loss.

September Transformation Committee – Summary

RAG, cost and benefits based on full programme life
RAG in brackets indicates programmes view
Draft – subject to ExCo review



Programme	Time	Cost	Benefit	Quality	Comment / Areas for Discussion
Network Transformation	A	A £956M	G £TBC	G	Contracts signed, openings and current quality measures ahead of target, though model profitability KPI to be agreed via revised business case which is now due for completion in September. Guided Leavers pilot underway with no significant negative stakeholder reaction, with continued roll out of next stages agreed at programme Steering Group. Key action for the programme is to define clearly, discuss and agree the 'cliff', aligning to business strategies being presented to Board in September
Crown Transformation	G	G £125M	R P&L Break even	A	The programme continues to deliver in line with targets across branch transformations, training, staff cost reductions, SSK rollout, mergers and relocations - though P&L run rate £1M adverse at end of Q1 (due to income and business wide cost savings behind plan). Therefore an over achievement in last 3 quarters is needed to achieve target. More focused income call to action required at Trading Board to address Crown income shortfall. Customer satisfaction (queue times and transformed branches) both behind target but at P5 variance from target improving. 16 of the 70 Franchise branches are at risk with the programme investigating options for alternative ways to franchise or find further savings to cover the shortfall. Programme to produce a series of options, for October Transformation Committee, to achieve Crown break even run rate by March 2015 (including close alignment with Network Development)
Branch Support	A	G	A £3M P/A	G	Programme continuing, rather than pause or integrate into Business Transformation to allow early savings to be realised and improve efficiency of existing operation. This will create a more stable platform for any TOM changes to be made. The programme is investigating accelerating activity to bring forward benefits from 2015-16 into this year (potential additional £500K benefits). Specific questions within Agent engagement index are proposed to measure Quality of the programme output.
Separation	A	A £44M	N/A (G)	G	Core Finance System implementation and cut over successfully achieved to plan. Extension side letter due to be agreed at the next MSA Board on the 24 th Sept and includes incentives to separation dates for the remaining IT workstreams. The CSC contract supporting the separation of HR and Supply Chain (hosting and service elements) due to be signed in late September.
IT Transformation	A	A £53M	A (G) £25M P/A	TBC	Alignment between IT Transformation and Business Transformation programmes continues. Revised business case produced but not yet submitted to Finance Committee, benefits and 2014-15 cost profile remain on track, though there is a risk to the programme costs beyond 2014/15.
IT Enablers	A	G £56M	N/A (G)	G	Network Development has significant dependencies on Common Digital Platform and Branch Counter Refresh with appropriate ATOS and Accenture resource working within the Network Development programme. As a result of pausing the POL SAP upgrade a risk has risen regarding Fujitsu's willingness to continue supporting POL SAP on the existing infrastructure until March 2016 – discussions have started with Fujitsu. Transformation Committee agreed alternative governance reporting for IT Enablers portfolio.
Business Transformation	A (G)	A £7.5M 14/15	R £200M P/A	G	TOM recommendations discussed at ExCo in preparation for Post Office Board meeting on 25 th September. A review of the impact of the TOM on existing programmes to be undertaken prior to Board meeting. Programme co-ordinating all cost reduction activities (both operational efficiency and existing cost reduction actions) and reporting to ExCo on weekly basis. An assessment of 2014/15 change plan has been completed with recommendations being implemented (e.g. pausing certain projects and aligning others). Benefits red as route to achieving savings not yet agreed.
Network Development	A	G £4M (to Sept)	R	R	Programme fully operational with focus on recommendations for September Post Office Board, a compelling commercial proposition to inform the full programme business case and Ivy pilots (that are under development). A major risk for the programme is being able to develop a commercially viable business case. Dependencies exist with Business Transformation for 2020 product lists and CDP to enable separation from legacy technology. Future Network design underway and will need to consider impacts on other programmes particularly Network Transformation

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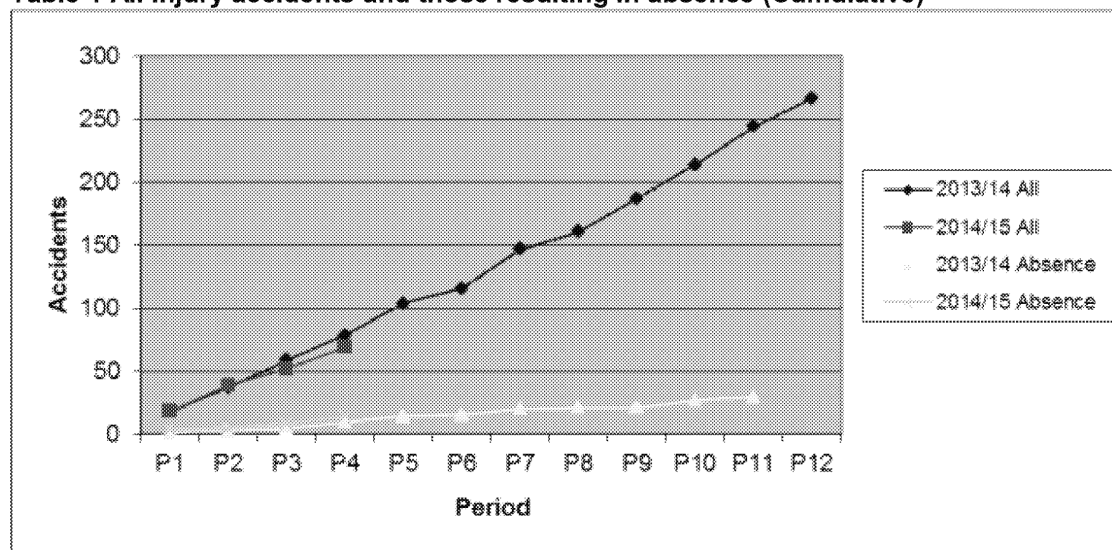
POST OFFICE LTD EXECUTIVE COMMITTEE**Health & Safety Report****1. Purpose**

The purpose of this paper is to:

- 1.1 Provide an update on safety performance.
- 1.2 Outline risk reduction activities.

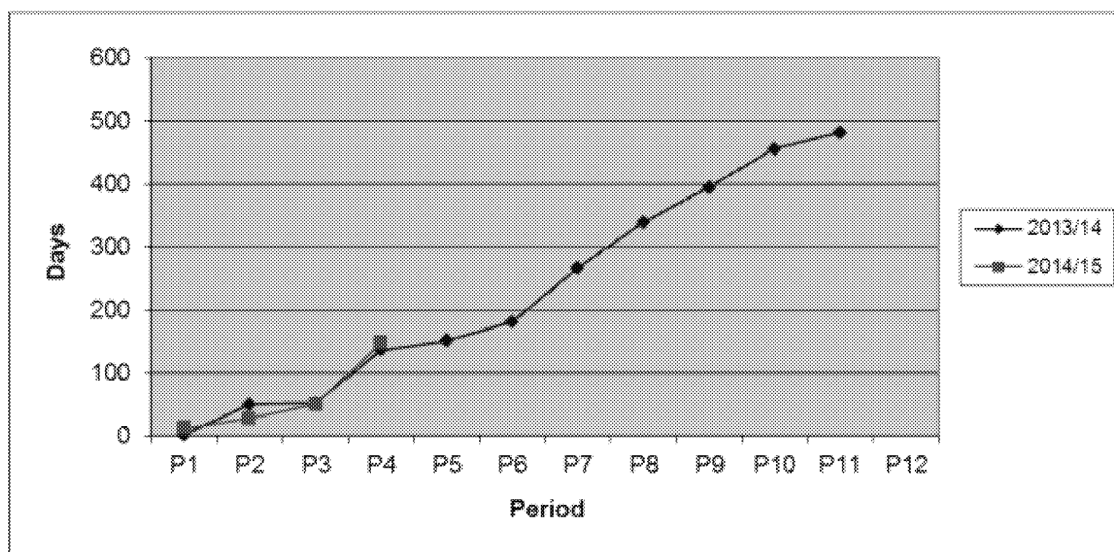
2. Current Situation

- 2.1 The majority of accidents fall into three main categories lifting and handling, stepping and striking and outdoor falls. These are higher frequency events with, in the majority, relatively low severity. The lower frequency types of incident can carry the potential for very high impact, for example, assaults and road traffic collisions.
- 2.2 All safety KPIs for 2013/14 were met or exceeded for the fifth year running. Performance during the first four months of 2014/15 indicates that at this early stage of the year and despite the slight adverse performance in absence accidents and days lost there is no current cause for concern that further reductions by year end are achievable and in line with the 5% year on year reduction target.

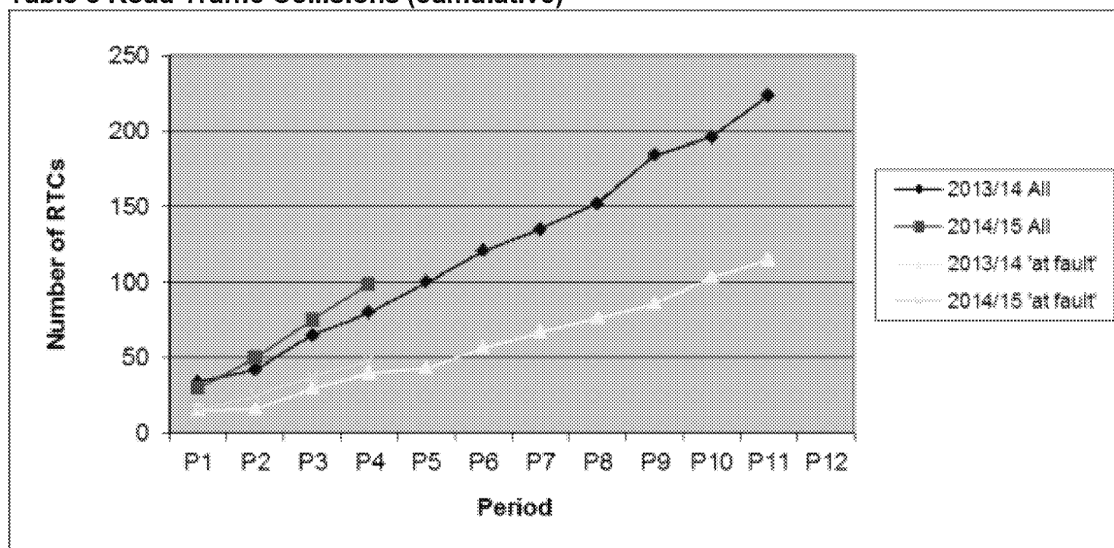
Table 1 All Injury accidents and those resulting in absence (Cumulative)

- 2.3 Personal injury compensation claims are falling in line with the reduction in accidents that result in sick absence. Comparison with a similar retail organisation indicates that the Post Office claim rate is significantly lower in both public and employer's liability and of those claims the 'denial' or 'defence' rate is significantly higher.
- 2.4 The number of days lost due to accidents is marginally adverse against target however it is anticipated that the year on year reduction target of 5% will be achieved. (Table 2 below refers)

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Table 2 Days lost resulting from injury accidents (Cumulative)

- 2.5 The total number of road traffic collisions (RTCs) for the first 4 months is up 19 on last year. While this is of concern it is believed that there continues to be a more robust approach to the reporting of incidents, irrespective of severity, and what appears to be an increase in minor damage incidents e.g. broken mirrors and minor scrapes. The number of incidents where the Post Office driver is 'at fault' is also up compared to last year. (Table 3 refers) Road risk reduction opportunities continue to be the subject of analysis at the Road Risk Forum with a view to identifying improvement activities in addition to those already in place. (3.1 below) Reversing incidents are currently a cause for concern and will be the subject of additional attention. Injuries as a result of road traffic collisions are extremely infrequent. Road traffic collisions account for less than 3% of the overall number of injury accidents, however they have the potential for high impact in terms of injury and loss. Currently the majority of incidents involve low speed – less than 25mph.

Table 3 Road Traffic Collisions (cumulative)

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- 2.6 Robberies on Post Office Cash and Valuables in Transit (CViT) crews are down one on last year from 14 to 13 for the past 4 months. Physical injuries during robberies, of which there have been 4, 2 more than last year for the same period, remain relatively minor in severity. The level of use of firearms remains consistent with last year with 2 of the 13 robberies enabled by the presence and/or threat of use of fire arms and on no occasions were the firearms discharged. Support for those affected by robberies is provided by trained trauma supporters and professional support resources available through the occupational health service provision. Risk reduction activities are identified at 3.2. (Appendix 1 – Significant Incidents refers)
- 2.7 Robberies and attempted robberies on the Post Office network, for the first four months, are the same as last year – 29 – just over 62% were successful. Injuries sustained during robberies are down from 5 to 1. Robberies take place predominantly at sub post offices leaving Crown branches largely unaffected. Supporting activities have been introduced to continue to mitigate this risk and are identified at 3.2. (Appendix 1 – Significant Incidents refers).

3. Activities

3.1 Road Risk

Current activities to mitigate road risk are:

- Road risk forum in place to scope and develop road risk reduction initiatives and activities with guidance from insurer's risk management division.
- Review of policy and guidance for non-operational drivers e.g. business car drivers to ensure transparent reporting of accidents and driving behaviours interventions
- Analysis and deployment of interventions for reversing incidents to mitigate the increased incidence rates
- Technical accident reduction interventions on new vehicles e.g. Reversing aids to reduce accidents
- Analysis and evaluation of data (e.g. risk profiles) to determine further accident reduction interventions
- Safe driver of the year award to encourage responsible driving
- Weekly case conferences to ensure consistent approach to accident investigation, follow up activity and sharing of best practice

3.2 Robbery/Burglary Risk

Current activities to mitigate robbery and burglary risk are:

- Active liaison activities with the police and increased police support activity
- Liaison with Met. Police on the increase in gun enabled robberies
- Introduction of new deterrent technologies e.g. DNA taggant – a solution that contains a unique identifier that is released automatically in the event of a robbery, spraying those involved and enabling identification of the individuals involved in the robberies
- Significant reduction in opportunities for duress type robberies linked to the introduction of single person vehicles
- Increased security support visits to Post Offices in 'hotspot' areas
- Increased use of crime alert communication techniques to Post Offices
- Piloting new point of transfer arrangements to reduce exposure
- Fogging technology
- Safe time locks
- Increased use of surveillance vehicles

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- A three month 'Crime stopper' campaign in the West Midlands is in place, aimed at reducing cash in transit robberies

3.3 Health and Wellbeing

Current activities to enhance wellbeing

- Second phase of visits to all Post Office sites to offer and encourage the use of health check equipment that provides a wide range of indicators on physical wellbeing. First phase of programme delivered 3681 health checks (Crowns 2486, Admin. 553 and Supply Chain 662). The anonymised data will be used to develop future health and wellbeing campaigns.
- Health and wellbeing 'Team Talk' modules
- Health and wellbeing poster themed campaigns
- Online wellbeing monitoring tool to support health check initiative
- Roll out of mental health awareness programme

3.4 Safety

The Post Office occupational health and safety management system (OHSMS) is certified by external auditors to the standards required by British Standard OHSAS 18001.

3.5 Asbestos Management

Transfer of the ownership of asbestos management following separation has led to a programme of actions to ensure that up-to-date surveys are available, defined responsibilities post-split are clear and that an asbestos management 'action plan' is in place to ensure that these issues can be managed effectively and in line with legislation. Legal Services have been engaged to advise on responsibilities, particularly in relation to the agency network, and to ensure arrangements for on-going management of asbestos are robust and risks mitigated.

4. Residual Risks

- 4.1 Driving activities have the potential for high impact/loss and therefore remain as a significant residual risk. However, the actions identified in 3.1 above are aimed at mitigating that risk and improving performance.

5. Recommendation

The ExCo is asked to:

- 5.1 Note the overall safety performance
- 5.2 Note the risk reduction activities.
- 5.3 Note the residual risks

**Neil Hayward
September 2014**

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Appendix 1

Significant Incidents (Period 4)				
Crowns and Network				
Location	Loss	Circumstances	Physical Injuries	Any further details
Filton SPSO, 2-3 Church View, Filton, BS34 7BT.	£4,605	Thu 17/7/2014 12:20 Two men armed with a knife and large sticks entered the PO and forced all 4 staff into the fortress area, using large knives the flip top till drawers were forced open, all staff ok.	None	No previous incidents
Lower Broughton MSPO, 21 Mocha Parade, Manchester, M7 1QE	£5,390	Fri 18/7/2014 10:00. Five men broke in to the rear of the building, the branch was open and the counter assistant who was working alone was punched and kicked and required medical attention GRO GRO Working cash was taken from the counter drawer.	GRO	There have been four previous incidents. 1 burglary September 2011. 3 attempted robberies, CViT August 2008, April 2011, branch April 2012.
Bloomfield SPSO, 323 Beersbridge Road, Belfast, BT5 5DY	£396	Fri 18/07/2014, 20:54. Two males, one armed with a gun came in and threatened the clerk. She was forced to hand over cash which was a mixture of PO and shop money. It is believed there could have been a possible 3rd male outside the branch and they fled on bikes.	None	Three previous incidents, other burglary in March 2006, PO attempted robbery in April 2010 and a retail armed robbery in April 2014.
Supply Chain				
Belle Vale SPSO, 125 Belle Vale Road, Liverpool L25 2PE	£25,000	Fri 04/07/2014. Crew member was in the PO when 2 male assailants jumped over a wall and ran in to the PO. The Crew member was pushed to the floor and the cross pavement protection box snatched. Crew member GRO by the fall.	GRO	