

Presentation for Industry Stakeholders

Analysis of the postal and courier market for the Communications Commission of Kenya

18 March 2014

Ian Streule, Philip Bates, Graeme Lee, Richard Lyall, Juan Ianni,
Steve Hannon, Andrew Daly and Declan Clancy

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Introduction

Objectives of the project

- CCK has commissioned Analysys Mason to review the postal and courier market in Kenya
 - market development, competition, reserved services, universal service obligations (USO), licensing, interconnection and security
 - our team has included experts from Sunflower Associates and PLCWW
- This workshop will discuss our analysis of the sector and our recommendations to CCK

We have undertaken a range of activities

- In December and January, information gathering meetings with:
 - CCK, CIAK, PCK, a number of other industry players including bus companies and courier firms
 - other key stakeholders involved in the industry, including users (utility companies, banks), financial providers and government agencies (MoICT, Land Registry)
- We have worked closely with CCK to understand market statistics, licensing activities and regulatory developments such as the universal service fund
- We would like to thank those of you in the industry who took the time to meet with our team and contributed insight and information to our fact-finding activities

Our team



Ian Streule

Partner, Analysys Mason
Project Director



Philip Bates

Principal, Analysys Mason
Project Manager



Graeme Lee

Senior Partner, Sunflower
Associates
USO & exclusivity inputs



Juan Ianni

Sunflower Associates
Legal & regulatory inputs



Steve Hannon

PLCWW
Strategy inputs



Richard Lyall

PLCWW
Security review



Andrew Daly

Manager, Analysys Mason
Markets & competition inputs

Declan Clancy

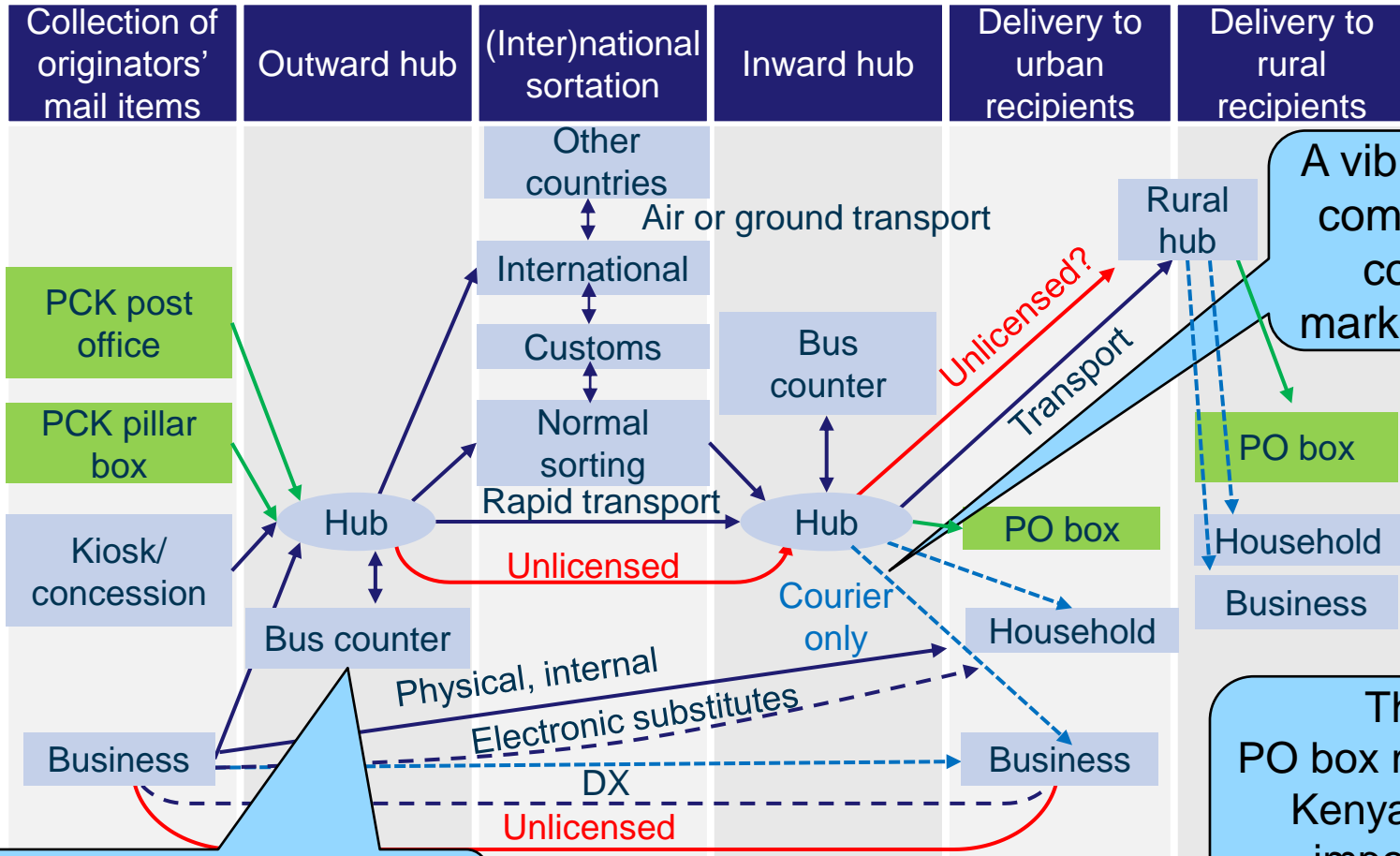
Associate Consultant,
Analysys Mason
Research

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Markets and competition

The postal market in Kenya has developed a distinct set of characteristics



A vibrant and competitive courier market exists

The PO box market in Kenya is an important reserved area

Bus companies are playing an increasing role in the market

We believe that two weight categories are of interest in the post and courier market

Under 100g

- Vast majority of letters fall into this category
- Can use standard sorting techniques such as sorting frames and bundles of pre-sorted letters
- Items fit into standard PO box
- Most items have no monetary value

100g-20kg

- Postal items handled via lower-volume processes
- Packets and parcels guided by form factor
- Many items do not fit into standard PO box
- And these tend to have monetary value

Above 20kg

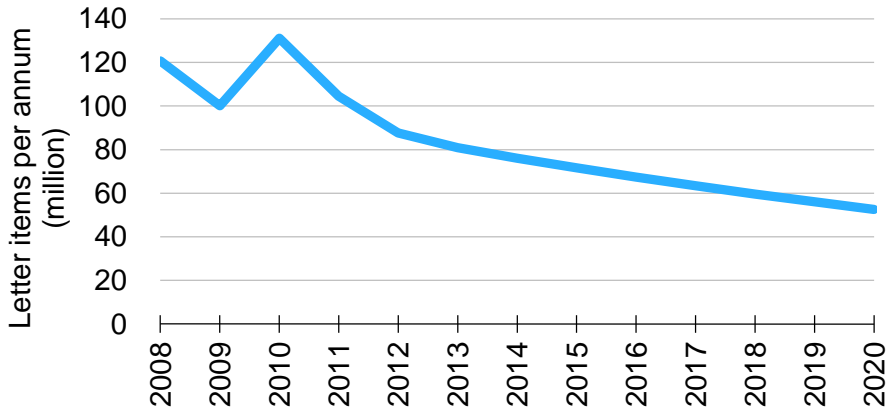
- Above the universal service weight
- Considered to be freight

The level of competition varies across these economic markets

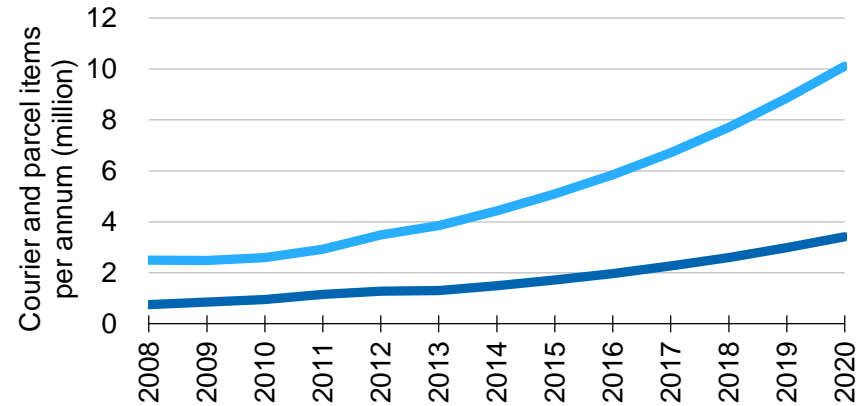
	Market	Comments
A	Domestic bulk letters	Delivered through the PO Box network where PCK is the monopoly provider, but threatened by e-substitution
B	Domestic slow single-piece letters	PCK is the only provider of multi-day (slow) single-piece (unsorted) letter items
C	Domestic fast single-piece letters	Highly competitive with large number of local and national providers
D	Domestic fast packets and parcels	Growing and competitive with numerous substitution options
E	Domestic slow packets and parcels	PCK is the only provider of multi-day (slow) packets and parcels to PO boxes

We have extrapolated current volume trends, guided by regional benchmarks

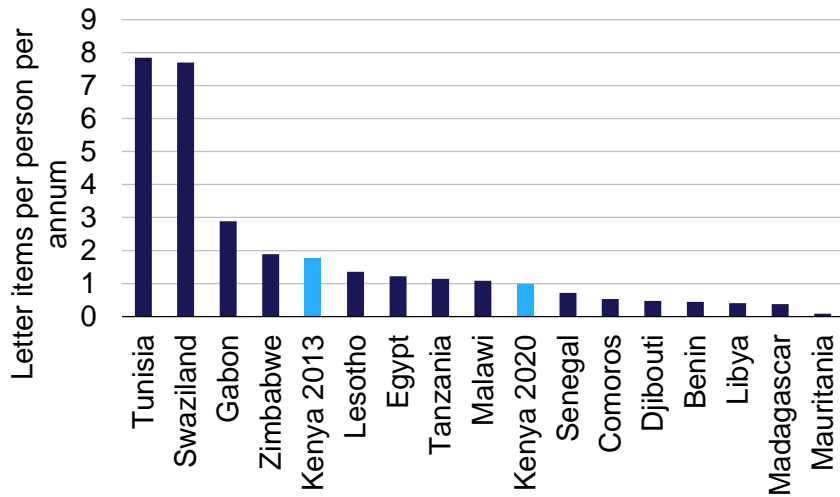
Letters



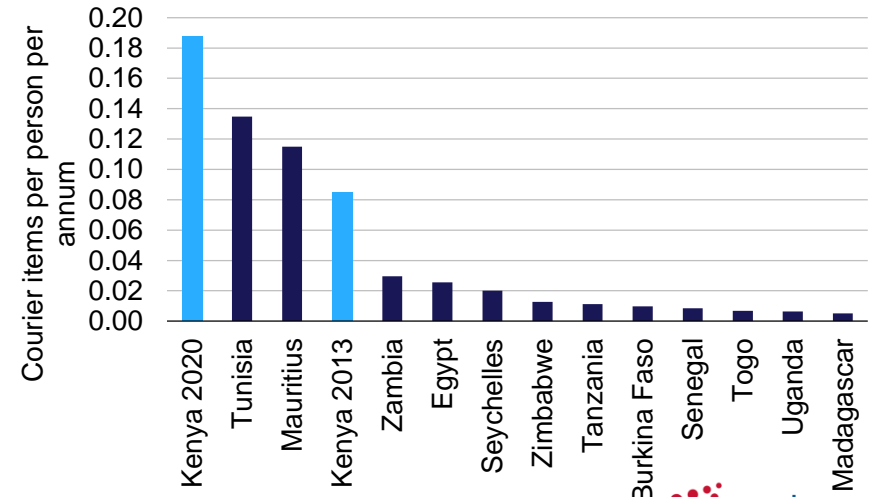
Courier and parcels



Letter items per head



Express items per head*



* Our report also includes a parcels benchmark

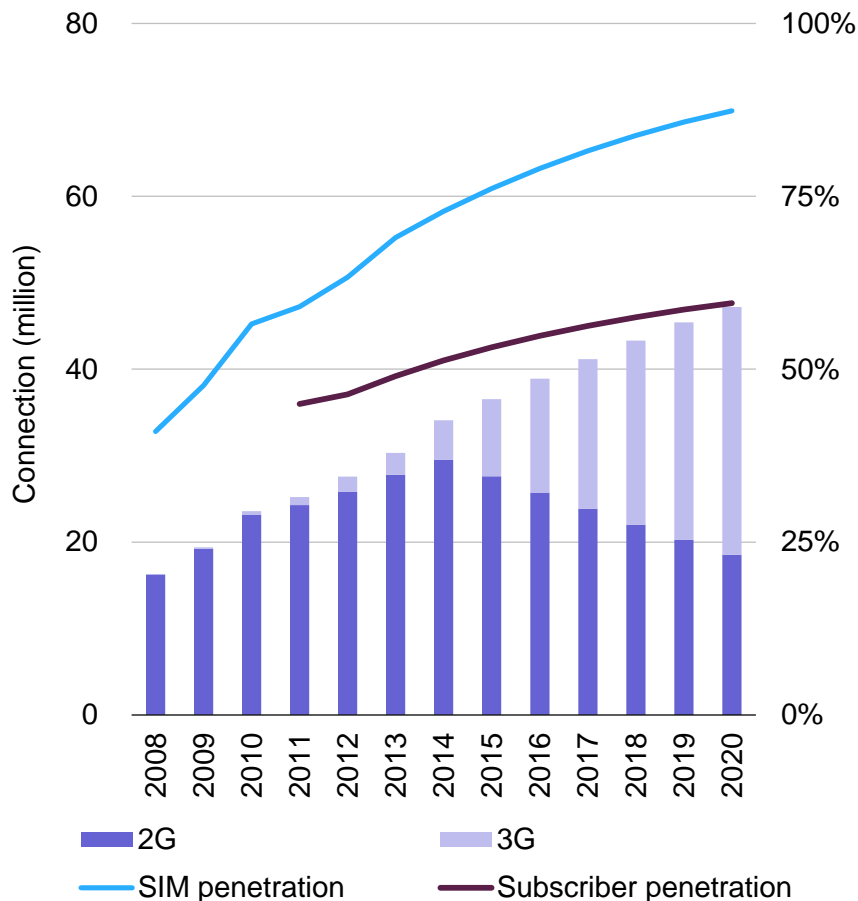
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E-commerce

Internet access and familiarity with e-payment provide a solid base for e-commerce in Kenya

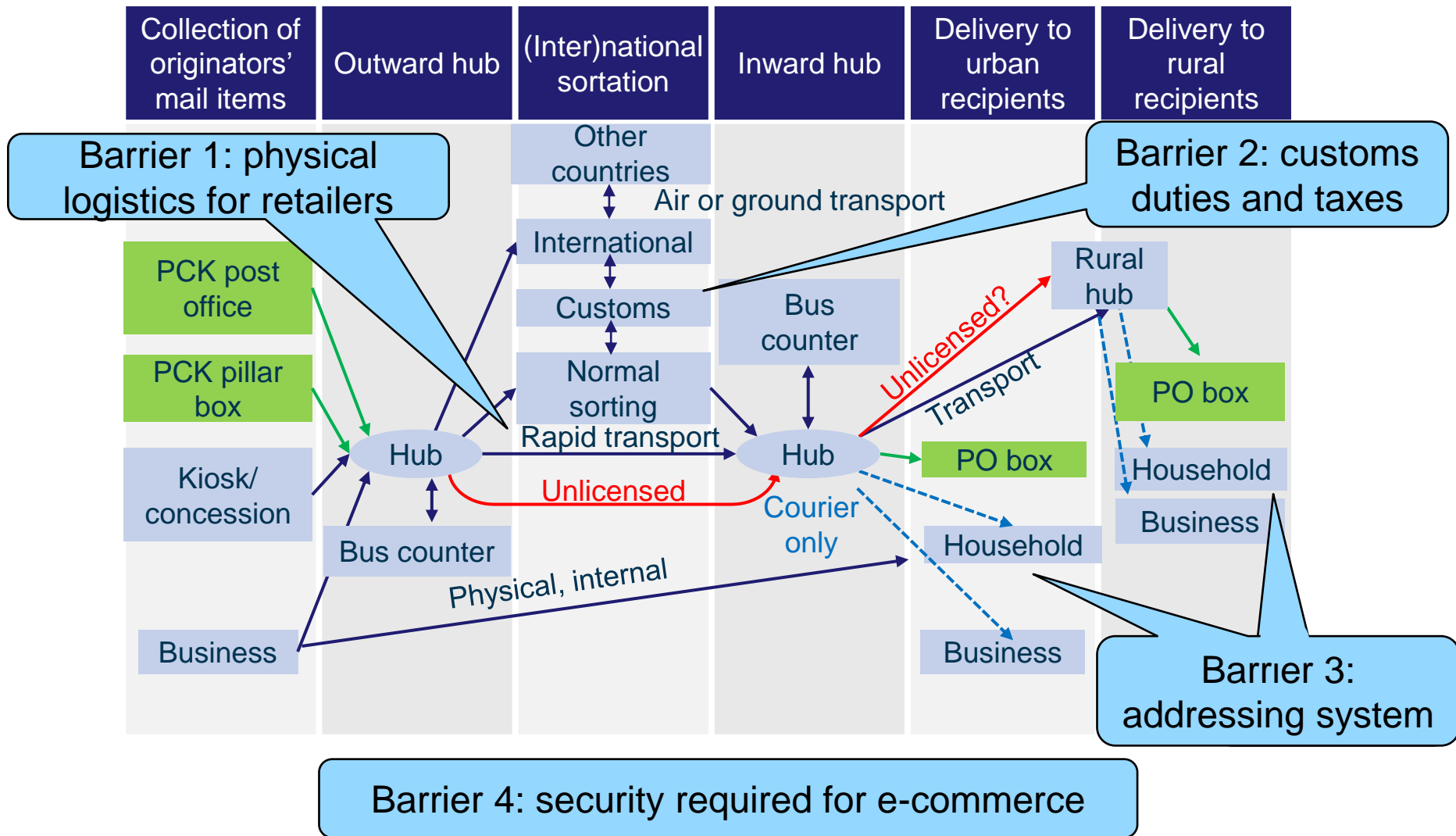
2G and 3G connections



Mobile finance in Kenya



E-commerce is being held back by barriers to effective fulfilment and cybersecurity issues



Many e-commerce deliveries do not require the express services that couriers currently provide

- Delivery-related issues are main inhibitor of e-commerce in Europe, and few national postal operators in Africa can deliver significant volumes of packages to homes
- Several large e-retailers in Africa have developed their own logistics networks – but this is not possible for smaller companies
- Delivery within 2-5 days would be acceptable for some e-commerce deliveries
 - however, quality of service for multi-day delivery should meet the expectations of senders and recipients
- Real-time track-and-trace and SMS notification of deliveries are two key services that would improve customer experience

Delays and costs when importing items are commonly cited as barriers to e-commerce

- Duty and tax on incoming international items amount to ~50% of their value – **a significant inhibitor to international trade**, which is rising in Kenya
- Duty and tax are payable regardless of value of the item – for many items **cost of administering tax and duty exceed the amount collected**
- Despite a customs declaration itemising the contents, each item is opened to assess contents – **items can take over a week to be released**
- **Delivery issues for recipients:** in Nairobi recipients must go to the GPO and have their packages opened publicly, and outside Nairobi customs opens packages and charges duty to be paid by the recipient at their local post office

The development of a national addressing system is not a short-term solution for the industry

- Firms have cited the lack of a national addressing system as a major barrier to e-commerce
- The development of a national addressing system requires the input of many stakeholders
 - postal operators are not best-placed to lead its development
 - there is a requirement for detailed mapping input which is not currently available
 - this is a long-term project with high costs
- In the meantime, postal and courier operators will need to find their own solutions, individually or collaboratively
 - these can be effective – e.g. GPS, smartphone technology, SMS notifications and universal SIM registration

Both consumers and merchants are concerned about fraud and security of payments

- Merchants are concerned about levels of fraud due to identity theft
 - CCK can protect merchants by supporting the development of a comprehensive cybersecurity framework
 - there are already some cybersecurity programmes in development
- Consumers are wary about the security of paying in advance for goods
 - delivery companies and merchants could allow customers to pay on delivery (a common feature of e-commerce in India)
 - mobile money services in Kenya may be able to develop supporting trusted payment methods
- However, this market is still emerging, and customer confidence and trust will improve with experience, and as suppliers gain maturity in their processes and systems

Recommendations on e-commerce

- A minimum threshold should be introduced on imports, below which no import duty, taxes, insurance or levies will be charged
- The project to establish the national addressing system, and the stakeholders involved, need to be reviewed
- CCK should continue to support initiatives for consumer identity verification and consider introducing a trust mark to identify reputable merchants

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Legal and regulatory challenges

Kenya has adopted some, but not all, of the principles of international best practice

Principle	Kenya adoption
Clear, holistic, long-term government policy for postal sector	MolCT has not yet developed a standalone sector policy for post
Separation of roles and responsibilities in postal market	CCK has sufficient legislative power and regulatory expertise
Co-existence of public and private interests	Further 'postalisation' of regulations will improve market oversight
'Two-tiered' licensing systems	There are six categories of licence with different minimum fees
Stimulating competition	CCK telecoms experience enables it to focus on increasing competition
Consumer representation	There are not well-developed channels for consumer input



Could benefit from improvement

There are too many types of licence. Some licence provisions are unnecessary

- Quarterly reporting requirements for licensed operators are onerous
- Duration of courier licence is too long, given rapidly changing nature of the market
- Application form is complex and lengthy; any information already submitted to authorities should not have to be submitted again
- The 27-pages postal courier licence is too detailed. CCK has confirmed that some licence conditions are not relevant for particular licensees. Some conditions are relevant only to the public postal operator

Categories	Responsibility
Public postal operator	Responsible for USO
International operators	Operate international networks
International in-bound only	Receive items for domestic delivery
Regional operators	East African network
Intra-country operators	Major operator domestically
Intra-city operators	Operate within city boundary
Document Exchange	Exchange documents between members

Some of our proposals may encourage more unlicensed operators to become licensed

Licensed operators are concerned that unlicensed operators:

- do not follow pricing regulations on reserved areas and may price below cost
- are problematic for law enforcement agencies and are not accountable to CCK

Unlicensed operators may be resistant to licensing because:

- they are reluctant to adhere to CCK tariff requirements and pay licence fees
- their activities are ad-hoc, or for conveyance of contraband

Unlicensed operators may be more willing to become licenced if CCK simplifies the licence regime, reduces reporting obligations, and lowers the licence fees

Recommendations on legal and regulatory challenges

- MoICT should develop a standalone sector policy for post, based on issues specifically relevant to Kenya, reflect Vision 2030 and the 2010 Constitution, and use input from all postal stakeholders
- CCK should 'postalise' regulations in the ICT Act
- Number of licence categories should be reduced, and licence durations should be reduced to five years
- Licences and application form for private companies need to be simplified, and frequency of reporting reduced
- CCK should expand channels for consumer engagement
- CCK should set up a licensing and market forum

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Universal service obligations

The Kenyan USO is based on the UPU's definition, which does not specify access standards

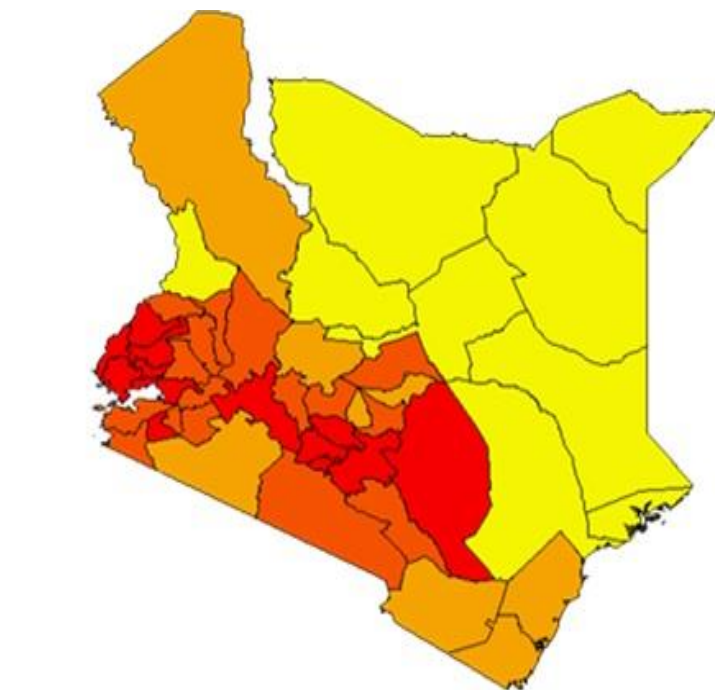
- UPU definitions do not address access to postal services, quality of service or pricing
- UPU defines the items which make up 'basic postal services', and advises members on basic US issues
- In Kenya, using UPU's template results in a strong definition of products, and a weak definition of access arrangements and quality-of-service standards

USO standard	Definition in Kenya
Scope	Slow and fast letters to 2kg, parcels to 20kg
Frequency of delivery	6x per week to post offices, at least 2x to sub
Number of post offices	Not defined
Density of post offices	Not defined
Street letter boxes	Not defined
Quality of service	CCK and PCK publish different targets

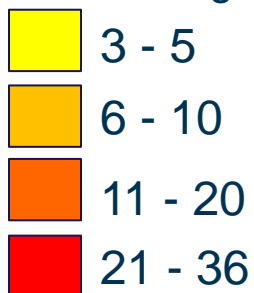


Area of concern

The density of access points varies between regions



Number of government post offices



- There are a very low number of access points in some regions of Kenya
- In the Northern region, each post office serves 178 000 people and 10 000 km², whereas in Nairobi each post office serves 26 000 people and 6km²
- In Nairobi there is insufficient supply of PO boxes to meet demand
- CCK's role is to ensure an adequate network is in place to guarantee access to post services

The net cost of the USO must be calculated in order to determine how it can be funded

- At present, USO is funded through granting a reserved area to PCK
- There is no data on cost of USO, and it is not possible to say whether PCK's net profit from the reserved area is sufficient to fund the USO
- In Europe, several methods have been used to calculate USO cost – but these may not be applicable to developing countries
- One approach suitable for a developing market would be a access network cost model, which determines costs and revenues of each post office in order to understand cost of providing US access

Recommendations on USO

- CCK and PCK should establish US access conditions, and develop five-year roadmap for how access will be improved. Until these measures are in place, PCK should not be permitted to close post offices without CCK's permission
- CCK and PCK should agree common set of quality of service targets and expected levels of achievement. CCK should undertake regular, independent, third-party performance tests to ensure standards are met
- The net cost of providing US should be established. CCK should also set up a US and access forum
- CCK should make USF operational as soon as possible to expand access

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Exclusivity

PCK's reserved access to PO boxes is more important than the minimum weight exclusivity

PCK's current exclusivity

The model broadly follows an old British system:

- To deliver all postal items up to 350g: other operators can deliver items within this limit if they charge at least five times the standard tariff
- Access to the PO box network: no other delivery company can access the PO box network, nor can they implement their own PO box network
- Right to issue postage stamps

Exclusivity in Europe

- Most European countries had a similar reserved weight and tariff model to Kenya
- In January 2010, full liberalisation – without restriction on weight or pricing – was introduced to all EU postal markets
- Countries have flexibility to license and regulate their postal sector
 - in UK there is only licensing in the former reserved area of 50g. Outside this, companies do not need a licence

Recommendations on exclusivity

- For the moment, PCK's exclusive right to provide PO boxes should be retained
- CCK should engage with PCK to discuss and agree a development programme for PO Boxes
- Exclusive right of PCK to carry standard mail under 350g (subject to the five-times-tariff rule) should be phased out
- PCK should retain exclusive right to issue postage stamps
- It is not recommended that more than one US provider be designated

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Interconnection

There are many ways of regulating interconnection, including light-touch and more intrusive methods

- In parts of the market where a dominant provider exists, interconnection obligations may be warranted
- *Ex-post* competition law may not be effective due to the complexity and timescales of dealing with disputes in the evolving Kenyan market
- *Ex-ante* regulations can vary from simple obligations to price-controlled downstream access, but can be intrusive. The dominant operator *could* be obliged to:
 - consider and willingly negotiate fair and reasonable requests
 - set up non-discriminatory, transparent agreements
 - adhere to a price control or other price regulation

Recommendations on interconnection

- A proportionate measure is to oblige PCK to consider interconnection requests for 'fair and reasonable' wholesale access to its slow- and courier-speed pipelines

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Mail security

A best-practice document would encourage a consistent level of security across operators

The postal market in Kenya is highly diverse – it would be inappropriate to require all licensees to meet the best standards. A basic set of security standards for postal and courier operators should include:

- Mail should not be left unattended or insecure at any time
- All staff should have an appropriate level of security awareness
- Unauthorised access to operational sites should be prevented
- High-risk mails should be afforded appropriate protection
- Supervisory checks to safeguard mail should be effectively deployed
- Equipment used to convey mail should afford appropriate level of security at all times

Recommendations on security

- To enable efficient monitoring of security performance of operators, CCK should ask for regular data on security issues
- CCK and CIAK should develop a mail integrity document for all operators to sign up to
 - this will provide basic and best-practice recommendations on operational security, physical security, staff awareness, mail-handling procedures, dealing with undelivered items, and employee protection
- CCK should set up a security forum to exchange information on best practice and new risks

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Next steps

After this workshop we will be finalising our report

- This workshop, and other meetings this week, are intended to gather feedback on our draft report and recommendations
- We will finalise our report in the next 1-2 weeks based on the inputs that we receive this week and also in discussion with CCK
- We will also be providing a proposed implementation plan to CCK for our recommendations

Contact details

Ian Streule

Partner

ian.streule@analysismason.com

St Giles Court
24 Castle St,
Cambridge
CB3 0AJ

Philip Bates

Principal

philip.bates@analysismason.com

North West Wing,
Bush House,
Aldwych,
London
WC2B 4PJ

Graeme Lee

Senior Partner

graemelee@sunflowerassociates.com

13 Wildspur Mills
New Mill
Huddersfield
HD9 7BA