

**TESTIMONY OF JODY BERENBLATT
SENIOR VICE PRESIDENT—POSTAL STRATEGY
BANK OF AMERICA
BEFORE THE
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICES, AND
INTERNATIONAL SECURITY
OF THE
SENATE COMMITTEE ON HOMELAND
SECURITY AND GOVERNMENTAL AFFAIRS**

AUGUST 2, 2007

Mr. Chairman and Members of the Committee, my name is Jody Berenblatt. I am Senior Vice President—Postal Strategy for Bank of America. Bank of America very much appreciates the opportunity to appear before this Committee today.

We would also like to thank Senator Carper and Collins, along with the other members and staff of the Committee, for their personal leadership in gaining passage of the Postal Accountability and Enhancement Act (“PAEA”) late last year. Enactment of the legislation was the culmination of many years of hard work. The legislation, if properly implemented, offers the prospect of sounder finances for the Postal Service, a more streamlined regulatory system, and more reliable and economical service for mailers.

The purpose of this testimony is to identify several critical areas for implementation of PAEA in the area of mail service performance and measurement. The quality and consistency of the mail service we receive greatly affects its value for the Bank of America.

I. BANK OF AMERICA' S INTEREST IN MAIL SERVICE PERFORMANCE AND MEASUREMENT

Bank of America Corporation, headquartered in Charlotte, North Carolina, provides a full range of banking, investing, asset management and other financial and risk-management products and services to individual consumers, small and middle market businesses, local and state governments and large corporations. We are the second largest bank in the United States in revenue, and the 12th largest firm on the Fortune 500 list for 2006. We are also the No. 1 overall Small Business Administration lender in the United States, the No. 1 SBA lender to minority-owned small businesses, and by several measures, the largest issuer of credit cards in the United States.

Bank of America uses the mail for operations and marketing communications to both our existing and prospective customers. In 2006, we mailed approximately 1.4 billion pieces of First-Class Mail (billing statements, privacy notices, etc.), and approximately 1.9 billion pieces of Standard Mail (welcome packages, marketing materials, etc.). As such, the mail system is very important to us.

I serve as industry co-chair of the First-Class Mail sub-team of the Mailers Technical Advisory Committee (“MTAC”) Workgroup 114, entitled *Establish Service Standards and Measurement* (formed February 2007). In my role, I have facilitated the involvement of the Remittance Industry in the workgroup.

The Bank of America is also a member of the Association for Postal Commerce, which I currently serve as Vice Chairman, and several other

associations of mailers, including the American Bankers Association, the Direct Marketing Association, the Major Mailers Association, and the National Postal Policy Council.

The establishment of service standards and a reporting system for all market-dominant products of the Postal Service is critically important. Financial institutions are subject to regulatory constraints on the delivery timing of our customer communications, so we must plan our production and entry schedules to avoid premature or untimely delivery. The ability to predict delivery times with reasonable precision is especially important for this planning.

Enhancements of the Postal Service's performance in relation to these standards will help drive improvements in service, thereby enhancing the value of the mail to current and future customers. And the enhanced value of mail should help to grow the mailstream. We support the PAEA statutory objective of achieving service performance that is cost effective and consistent with best business practices.

II. ASSESSMENT OF CURRENT SERVICE PERFORMANCE

Current service performance is inconsistent and improvement of standards and measurements to enhance performance is therefore important. For example, while current service standards specify that all domestic First-Class Mail is to be delivered in three days or less, it is not. As a result, we often employ special services and experience extra expense for on-time delivery.

Standard Mail, likewise, requires improvements to standards and measurements to enhance USPS performance. While the service standard for a piece of Standard Mail depends on its entry point and destination, all Standard Mail is supposed to be delivered within 10 days. Publicly available data again show that the Postal Service does not achieve its service standard consistently.

Even if the data pointed to a more acceptable result or were acceptable as is, the degree of inconsistent delivery is a large issue for mailers, large or small, trying to conduct business through the mails with either class of mail. Moving forward, we will work closely with the USPS to identify opportunities for improvement.

III. SERVICE STANDARDS

The Postal Service's existing service standards for First-Class Mail and Standard Mail, if consistently met, are an excellent starting point for developing the service standards required by PAEA. Future changes to the standards need to strike a balance between service quality and cost, and recognize the general consensus of mailers' needs.

Changes in service standards should be communicated in a timely and regular fashion, in a format similar to the summary of changes appearing at the beginning of each new release of the Domestic Mail Manual. Any change in service standards should be publicly announced at least one quarter before the effective date of the change to allow mailers adequate time to make any necessary adjustments.

The Postal Service should not be permitted unilaterally to lower existing service standards in any significant way. While limited changes to service standards may be appropriate (e.g., the realignment of standards for specific “city pairs” as the postal network changes), any major downward redefinition of acceptable service levels should not be permitted to occur without independent review.

Critical Entry Times (“CET”) should also be specified in the service standards, and changes in CETs should be subject to the same review process as changes in delivery times. A critical entry time is defined as “[t]he latest time a particular class of transported mail can arrive at the destination post office to meet the service standard for mail processing, dispatch, and final delivery.” USPS Library Reference N2006-1/1, *Glossary of Postal Terms* at 29.

An advance in the critical entry time is a mirror image of a delay in the applicable delivery time: each amounts to changes in the service standard. For example, consider an example where the CET for a First-Class mailing is currently 9:00 PM. This entry time will allow the Postal Service sufficient time to process the mail for next day delivery in the overnight service area and also allows the mailer sufficient time to produce the entire mailing by 8:00 PM, allowing entry by the CET. If the CET is now changed to 3:00 PM, the mailer will no longer have time to produce the full day of mail. All mail that is produced between 3:00 PM and 8:00 PM now effectively has an additional day added to its delivery time making it a two day delivery.

Changes in CET could affect large volumes of mail. Large mailers can easily enter two million pieces of mail each day and produce almost 100,000 pieces of mail in an hour. A five hour CET change could affect half a million pieces of mail each day for such a mailer.

Service standards should also be published for the special services: (1) address corrections; (2) Post Office Boxes and Caller Services; (3) Business Reply Mail; (4) Certified Mail; (5) Registered Mail; (6) Certificate of Mailing; (7) Delivery Confirmation/Signature Confirmation; (8) Money Orders; (9) CONFIRM; and (10) Merchandise Return Service/Bulk Parcel Return Service.

Like mail delivery, the delivery of address correction information by the Postal Service has a "tail of the mail" distribution curve, with some corrections not showing up until one or more additional pieces have been mailed to the uncorrected address.

Given the lead time necessary to prepare mailings, address correction services will be much more effective in reducing the number of forwards for First-Class Mail and Undeliverable-as-Addressed Standard Mail if service standards are issued and met. Mailers who use address corrections need to know when they can expect the address correction information in order to integrate the address update into the current mail production process. Knowing the service standards for address corrections will help mailers reduce forwarding and returns for subsequent mailings.

Finally, changes in service quality need to be linked to the index-based rate cap established by Congress in 39 U.S.C. § 3622(d). As the Committee

members are aware, Section 3622(d) limits the average rate increase for market-dominant mail classes to increases in the Consumer Price Index. But meaningful before-and-after comparisons of prices for particular products or services require that the analysis control for any intervening changes in the *quality* of those products or services. The Section 3622(d) rate cap would become meaningless if the Postal Service were allowed to satisfy the constraint by reducing the quality of service offered. That would be akin to a Broadway musical being able to continue to charge their patrons \$100 for a box but seating them in the balcony, having the show begin several hours—or days—after the advertised curtain time, and requiring the audience to perform the songs and dances themselves and clean up the theater before and after the performance. Major and systematic reductions in actual service quality are tantamount to rate increases, and should count against maximum increases allowed by Section 3622(d). In fact, Postcomm, the regulator for Royal Mail, does adjust the price cap to reflect service degradation.

IV. REPORTING OF ACTUAL DELIVERY PERFORMANCE

A. Basic Issues

The development of an effective system of performance measurement is as important as—indeed, more important than—the development of service standards.

First, to the extent that actual service performance falls short of the standard—either in actual delivery time or in the range of variance from the standard—mailers rationally base their mail critical entry times and points

on actual service, not nominal service standards. Accurate performance data enable mailers to identify locations and facilities where service has deteriorated, and thereby enables mailers to adjust entry times and entry points to mitigate, to the extent possible, the resulting commercial injury to the mailer. For example, call centers often need to be staffed around the expected delivery time of a mailing. If delivery in a particular geographic area is expected at seven days for a marketing mailing but the mail is not actually delivered in that timeframe, there is no reason for the mailer to incur the extra personnel costs of staffing the call center before the mail is actually delivered.

Second, credible public data on service performance provide the necessary information for Postal Service managers to prevent and eliminate service problems. Indeed, this is probably a more effective incentive for change than fines or penalties.

Finally, credible public data allow mailers and the Postal Service to discuss performance issues. Six Sigma shows that data-driven communication and discussion are central to improvement. Problems must be identified, possible solutions must be tested, and workable solutions must be communicated before improvement occurs.

Bank of America is an enthusiastic user of Six Sigma, a data-driven method of process control that can be used to reduce defects in any process—whether manufacturing/transactional or product/service delivery. The Bank uses Six Sigma in all of our businesses. A process that experiences fewer than 3.4 defects per million opportunities is considered to be performing at a

"Six Sigma" level. A central principle of Six Sigma is that measurement must precede improvement.

To accomplish these purposes, however, data on actual performance must be detailed (i.e., geographically disaggregated), accurate, reliable and current. In addition, the performance reports should indicate not only the *average* time for mail delivery between two points, but the *distribution of the variance* from standard for the portion of the mail that is delivered late (the "tail of the mail").

The Postal Service should provide web-based access to performance data in the level of granularity or detail currently provided in the quarterly Service Standard disc—in other words, the ability to search by product, shape (postcards, letters, flats and parcels) and by 3-digit Origin/Destination ZIP Code pairs. Allowing mailers to access raw data is much less costly than requiring the USPS to develop and distribute detailed measurement data reports. More importantly, it facilitates communication and discussion, which leads to improved performance.

Bank of America shares the Postal Service's belief in the long-run promise of Intelligent Mail and the intent to use IM as the mechanism for generating service performance data. In fact, the Bank of America and the Postal Service are currently seeking regulatory approval of a Negotiated Service Agreement ("NSA") under which we would agree to serve as a large-scale test bed for Intelligent Mail technologies. It is important to recognize, however, that Intelligent Mail is new and not yet fully deployed. For formats where it is not widely used, other measures may be necessary to measure performance until IM is fully mature.

In this regard, the USPS should take advantage of its existing membership in the International Post Corporation (“IPC”) by leveraging the wealth of expertise and experience of the IPC to explore standards and measurement practices developed by IPC that could be used for the USPS. Founded in 1989, the IPC is a cooperative association of 24 member postal operators in Europe, North America, and Asia-Pacific. The Postal Service and the mailing community should explore further the model that the International Post Corporation uses for service standards and performance measurement of the Postal Service’s counterparts in other advanced industrial economies. Attached to this testimony is a PowerPoint presentation by IPC summarizing its performance measurement standards and models.

B. Special Concerns of Remittance Mail Industry

Detailed performance data are especially important for businesses that receive remittance mail. Remittance mail contains a payment, usually a check, big or small, sent to a creditor’s address via First-Class Mail. Notwithstanding electronic bill payment, mail of this kind totaled over 9 billion pieces in FY 2006 and represents over 20 percent of total First-Class Single-Piece Mail volume. Remittance mail conservatively accounts for at least \$20 billion of commerce in transit on an average day.

Every day that a financial transaction remains undelivered has an equal and calculable impact upon its recipient, which can be measured based upon the size of the payment and the collecting firm’s cost of capital.

There is general consensus that the existing system for measuring the performance of First-Class Mail—External First-Class Measurement System (“EXFC”)—is inadequate to the needs of the remittance mail industry. The data publicly reported by EXFC reveal only the percentage of mail delivered that satisfies a particular standard (*e.g.*, that 92% of overnight mail was delivered within standard). This binary, all-or-nothing reporting provides no incentive to the USPS for *early* delivery - the reported data do not disclose the percentage of mail that *exceeds* standard, let alone by how much.

Nor do the reports disclose *by how many days* the mail fails to meet the delivery standards. This is a serious omission. Late mail, “the tail of the mail,” can be one or more days late. A long tail has extremely serious consequences, even when the average piece—or even the vast majority of pieces—is delivered within standard. Because all delivery-day delays are equally consequential from the industry’s vantage point, a payment delivered two days late has twice the financial impact as a payment delivered one day late.

Additionally, bill payers generally hold the payment processor responsible for any delays in payment posting that cause late fees, – whether the actual cause was the payment processor’s fault or not – which requires us to accommodate the bill payer and make customer satisfaction adjustments to their account. The remittance industry needs a reporting system that provides transparency about the *extent* of lateness. We recommend a system

that discloses not only average days to delivery, but also one that shows the cumulative percentage of delivery by post-entry day.¹

V. NEGOTIATED SERVICE AGREEMENTS

Next, I would like to alert the Committee to a promising related development. On February 7, 2007, Bank of America and the Postal Service jointly requested approval from the Postal Regulatory Commission of a proposed Negotiated Service Agreement (“NSA”) between the Bank and the Postal Service.

The proposed NSA is precedent-setting in several respects. As the “first cost-savings NSA,” this proposed agreement provides the opportunity for the Postal Service to save money and create operational efficiencies for both the Postal Service and Bank of America. Among other things, it would

¹ The remittance industry also needs information on the time of day distribution of mail deliveries to the post office boxes of remittance processors. Since payments most often include a check within the envelope, the “payment path” is not final upon delivery of the mail piece. The check itself must be delivered to the paying bank before the funds transfer is deemed complete. The transportation for much of this does not occur during so-called “normal” banking hours, but occurs in late evening and early morning hours. Thus, the timing of receipt of payment can itself have a huge impact on the collecting institution. For this reason, payment processing is usually performed both on weekends and on multiple shifts during the processing day. For many processors, the function is literally performed constantly, including holidays. Thus, staffing is a huge issue for processors and requires a complicated understanding of delivery patterns throughout the day and across days of the week. EXFC provides none of this information. We believe that this specialized need will largely be addressed by a new USPS certification of key remittance facilities. Public reporting of geographically based data into a specific delivery plant that incorporates the delivery time of substantially all (i.e., 99 percent) of the mail would greatly improve the industry’s ability to monitor individual delivery plant performance.

commit Bank of America to use Intelligent Mail barcodes on substantially all of its First-Class and Standard letter mail. In essence, Bank of America would offer its approximately three billion pieces of annual First-Class and Standard Mail volume to serve as the first truly large scale pilot test of Intelligent Mail technology. In particular, customer service is enhanced by improving the timeliness of mail delivery, automating the address update process and thereby reducing the amount of forwarded and undelivered mail. Intelligent Mail Barcodes also provides additional security over older-generation PostNet barcodes. We look forward to the approval of that NSA, which should jump-start the large scale use of Intelligent Mail Barcodes.

VI. SUMMARY

Reliable, consistent delivery is critical to all of us who currently use the mail in our businesses. Mail is an important medium for nearly all businesses to acquire new customers and communicate with existing customers. Consistent service is critical to preserving our use of the mail. And consistent service will be critical to growing our use of the mail and further enhancing the value of the mail delivery systems to attract new users.

Performance standards are one key to reliable, consistent delivery. Performance measurement is another. We look forward to working with the Postal Service, the Postal Regulatory Commission, and the entire mailing community as the performance standards and the performance measurement system are developed.