Postal Rate Commission
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001

Rate and Service Changes To Implement Functionally Equivalent Negotiated Service Agreement With HSBC North America Holdings Inc.	)))	Docket No. MC2005-2

ANSWERS OF HSBC NORTH AMERICA HOLDINGS INC. TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1 (March 22, 2005)

HSBC North America Holdings Inc. ("HSBC") hereby responds to Questions 1, 4 and 8 of Presiding Officer's Information Request No. 1, issued March 10, 2005. Each question is stated verbatim and followed by the response. Questions 2, 3, 5, 6, 7, 9 and 10 are being answered separately by the Postal Service.

Respectfully submitted,

/s/

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March 22, 2005

RESPONSE OF HSBC JOHN H. HARVEY TO
PRESIDING OFFICER INFORMATION REQUEST #1

1. (a) Does HSBC create solicitations mailing lists by employing internally generated and maintained databases, or does it rely on purchased lists with list vendors maintaining the accuracy of the addresses? If a combination of different methodologies is used, what is the percentage of each type?

   (b) Please elaborate on what actions HSBC intends on taking after receiving electronic address correction information from the Postal Service, specifically including what steps will be taken to correct addresses contained within each type of solicitations mailing list discussed in (a).

RESPONSE:

1. (a) HSBC creates its solicitations mailing lists from its own databases and from information provided by its marketing partners. It also rents lists from third parties. The percentage of addresses from each source varies, and that information is highly proprietary. HSBC cannot disclose such information without placing itself at a competitive disadvantage. It will, however, provide information responsive to part (b) below to the fullest extent possible without disclosing proprietary information.

   (b) For addresses from rented lists, HSBC intends to arrange with the third party list owner to have the electronic address correction information forwarded to that third party. HSBC will request the third party to incorporate that information, and it will be in the third party's best interest to do so. However, HSBC will not have the *legal* ability to force the third party to make the address changes. For addresses from HSBC's own databases and from its marketing partners, HSBC is in the planning

process to develop programs that will be used after running NCOA. The programs will enable HSBC to run all mailings against the list of addresses for which HSBC has received address correction information; if a match is found, HSBC will suppress that address.

4. The Negotiated Service Agreement contract defines solicitation mail that contains convenience checks endorsed "Return Service Requested" as First-Class Mail "operational mail." Request Attachment F at III.C.1. The contract also states that the one exception to the requirement that the CSR endorsement be applied to all First-Class Mail solicitations will be solicitations mail that contains convenience checks, which will continue to be endorsed "Return Service Requested" and treated by the Postal Service in accordance with that endorsement. *Id*. at II.A. Additional information on the characteristics of "conditional check mail" is necessary to assess the financial impact of this type of mail on the Negotiated Service Agreement. Is the volume of "conditional check mail" included in the solicitations mail or operational mail estimates? If the return rate of "conditional check mail" is different from the category where the volumes are accounted for, how is the return rate for "conditional check mail" factored into the financial analysis? If "conditional check mail" volumes are treated as solicitations mail, please provide for each year of the agreement: (1) the estimated volume of "conditional check mail," and (2) the estimated return rate of "conditional check mail."

RESPONSE:

4. The volumes of conditional check mail are included in the operational mail volume estimates. HSBC internally classifies conditional check mail as marketing mail, but, for this NSA, conditional check mail was classified as operational. No adjustments to the average return rates were made. However, we believe that the return rate for conditional check mail is generally higher than the return rate of operational mail and lower than the return rate of marketing mail. Thus, theoretically, the return rate of operational mail would increase when higher-than-the-category-average return rate mail is added to that category. Similarly, the return rate for marketing mail would also increase when lower-than-the-category-average return rate mail is removed from that category. Because conditional check mail was not treated as marketing mail in this NSA, the

last question of this information request is not applicable.

8. Please refer to HSBC-T-1 at 6-9.

(a) Has HSBC used Address Correction Service for First-Class Mail solicitations? If so, please provide the following information:

i. Identify any time period over which the service was used;
ii. Identify the date the service was last used; and
iii. If the service is no longer used, describe the reasons for discontinuing use of the service.

(b) Witness Harvey bases his return rate estimates on historical business records. Please provide this information (or a detailed summary of this information) including the time period upon which the estimate is based.

(c) Please identify any changes in the nature of HSBC's recent First-Class Mail solicitations that may have affected return rates as compared to the mail upon which witness Harvey based his estimates. Also please discuss the effect, if any, that HSBC's planned business expansion might have on the return and forwarding rates of HSBC's First-Class Mail (both solicitations and operational mail) during the term of the agreement. Please explain any adjustments incorporated into witness Harvey's estimates to account for such changes.

RESPONSE:

8. (a) In 2002, certain groups within HSBC experimented with Address Correction Service. Approximately 0.2% of HSBC's total First Class Mail volume in 2002 was sent with ACS endorsements. After this experiment, HSBC discontinued using ACS because HSBC did not find that the service was worthwhile or met its business needs.

(b) HSBC's return rate calculations were based on data from 2003. The following methodology was used to determine HSBC's return rates:

For marketing mail, the three HSBC units which handle marketing mail were surveyed and asked to provide their UAA volumes for 2003. The data were then aggregated to reach an overall return rate for solicitations. Similarly, for operational mail, the six HSBC units which handle operational mail were surveyed and asked to provide their UAA volumes for 2003. These data were then aggregated to reach an overall return rate for operational mail.

(c) I am unaware of any changes in the nature of HSBC's recent First-Class Mail solicitations that may affect its return rates. As HSBC solicitations grow in volume and reach more segments of the population, it is logical to assume that HSBC's return rates will more closely resemble the higher return rates of the Postal Service's other NSA partners. However, this possible increase in return rates was not factored into Mr. Harvey's testimony. As to forwarding rates, because First-Class Mail solicitations will be run against NCOA, HSBC does not expect significant changes in forwarding rates.

CERTIFICATE OF SERVICE

I hereby certify that I have today caused the foregoing document to be served in accordance with Section 12 of the Commission's Rules of Practice

/s/

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Joy M. Leong

March 22, 2005