

Non Geographic Call Services

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- What have we done since the consultation?
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Current system



	Numbering plan designation	Price Guidance
03	Public section and not for profit organisations	Calls at geographic call rates from all originating networks – no revenue share
055/056	Corporate numbers	None
070	Personal number	No revenue share
076	Radio paging	None
0500/5	Special services	Free to callers except where there is a Pre Call Announcement (PCA)
0800/8	Special services	Free to callers except where there is a PCA
082	Special services, internet for schools	None
0843/4	Special services	Up to 5ppm for BT customers
0845	Special services	Local call price for BT's customers
0870	Special services	National call price for BT customers
0871/2/3	Special services	Up to 10ppm for BT customers
090/1	Special services, premium rate	Up to £1.50pm for BT customers
098	Sexual entertainment services	Up to £1.50pm for BT customers
116	International Help Lines	None
118	Directory Enquiry Services	None

Current rules



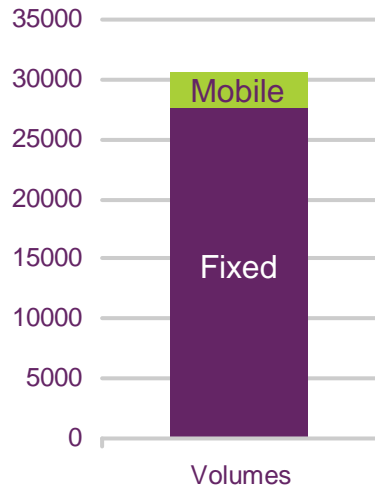
- Aside from 03 pricing guidelines apply only to BT who also have wholesale origination constraints
 - Non-BT phone companies vary widely in their charging, with mobiles in particularly frequently setting charges substantially above BT
- The numbering plan does set out intended uses but these are often ignored
 - Revenue determines use
- PhonePayPlus administers premium rate services (PRS) regulations and DQ guidelines
 - The PRS/DQ regulations set out requirements for price transparency and fraud/consumer protection measures

Consumer and citizen

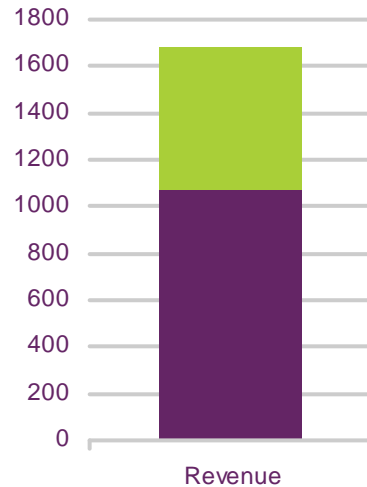
NG calls market is still large (but falling)



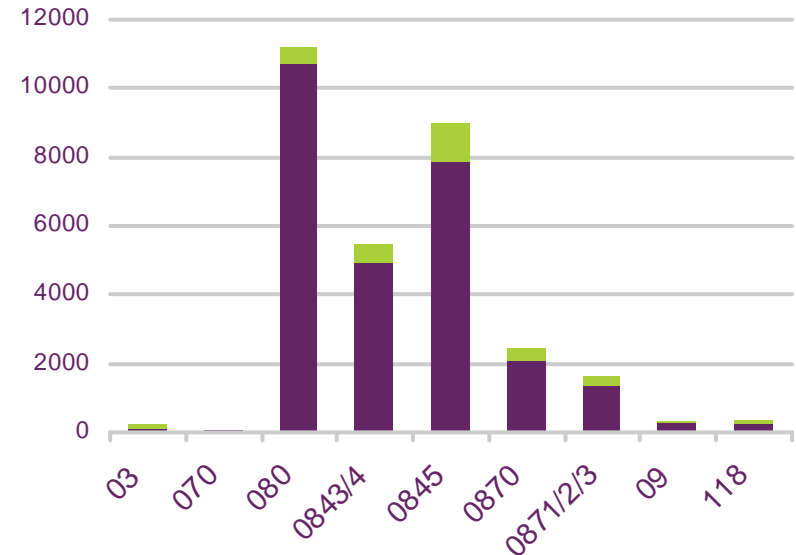
Millions of minutes



Millions of pounds



Millions of minutes



Sources: [AnalysysMason Flow of Funds report \(Draft\), September 2010](#)
[BT, September 2010 \(provided in confidence\)](#)

- Data from BT suggests that overall call volumes and call durations are falling:
 - NGCS consumer minutes has declined by [59%] between April 2007 and July 2010, compared to a [29%] reduction in geographic call minutes.
 - The number of NGCs has decreased by 44% (compared to 35% for geographic calls)

Consumers outcomes summary



- Price transparency is very poor
- Consumers are not confident in their understanding of the cost and frequently over-estimate
- Consumers are therefore deterred from making these calls
 - And may in addition make irrational choices and incur potentially high avoidance costs
- Consumers are not able to put pressure on prices, and competition is weak for these calls compared with other part of the telecom market
 - Accordingly prices for non-geographic calls that are substantially higher than would be expected in a competitive market – particularly on mobiles
- These issues have a disproportionate impact on, low income, mobile only households, creating distributional issues
- Low demand means consumer are not offered new or improved services
- Uncertainty creates the environment for fraud – via call charges or misrepresentation

Service providers

Lack of price transparency harms Service Providers



- Most Service Providers do not have any influence on retail prices (meaning OCPs are able to charge high prices and retain some of the margins). They also do not know what retail prices are charged which makes it difficult to accurately promote their services.
 - Only 5% of SPs indicated that they have an influence over the retail price
 - 42% of all revenue is retained by the telephone companies (36% of all revenue by mobile companies from only 10% of traffic) – yet SPs are blamed for the cost
- The lack of a clear retail price reduces SP's incentives to innovate and invest:
 - Eg a Directory Enquiry company has informed us that due to recent increases in mobile ppm charges, it is currently reviewing whether to remove certain services currently available (such as the restaurant booking service) as well as whether to halt plans to offer better value call completion as it considers the charges to be too onerous for customers given the length of calls potentially required

Source: [Analysys Mason Research, 11th August 2010](#)

Communications providers

Wholesale issues



- Until recently wholesale charges (termination rates) have been largely based on convention with the termination charge derived from wholesale SMP regulations imposed on BT
 - BT has SMP in wholesale call origination, we have therefore restricted the revenue they can keep from these calls – the remainder returns to the SP. This remainder level became the de facto industry rate
- However, last year we found that BT no longer held SMP in retail services. While technically the SMP wholesale condition is still valid, BT is resentful of what they see as unfair retail restrictions arising from this and the National Telephone Numbering Plan restrictions (which also only apply to them).
- Accordingly, to rebalance the field (and to raise additional revenue) they started to charge higher termination rates to phone companies (mobile companies) that charged prices substantially higher than BT's regulated price
 - 5 recent disputes and now 3 appeals plus more in the pipeline.
 - BT extending the range of numbers with tiered prices and other terminators are also now adopting these differentiated rates – high potential for market confusion

Source: Ofcom / Futuresight consumer research 2010

Economic incentives

3 interlinked market failures



Our main concerns stem from the way in which the retail level operates. We consider that consumers suffer a loss in welfare due to the impact of three related market failures:

- Lack of price awareness: This has direct impacts on consumer outcomes and behaviour as well as on the OCP incentives (that is the lack of price awareness means OCPs decisions are less exposed to competitive pressure on prices for non-geographic calls)
- Coordination between different elements in the value chain particularly the SPs and OCPs (the “vertical externalities”). OCPs are not sufficiently motivated by the preferences of SPs of NGC services and thus generally do not take the impact of their call pricing decisions on SPs into account
- The impact of individual OCP (and potentially SP) behaviour on the reputation and consumer understanding of individual number ranges and on the market as a whole (the “horizontal externalities”). Neither SPs nor OCPs have sufficient incentives to take into account the impact of their retail pricing on the reputation of an individual number range or the non-geographic number system as a whole.

Source: Ofcom / Futuresight consumer research 2010

Why have we not fixed this already?

Limited legal authority



Until recently:

No power to set limit on amount call providers may charge for calls in order to increase transparency

To-date, Authorisation Directive limited conditions re use of numbers to conditions relating to technical and administrative matters

So we can set information provision and number designations but not directly intervene in charges (in fact some concerns over current regulations in terms of enforceability)

Well we have tried ...



The Issues

Revenue uncertainty for Service Providers caused by discounting of 0845 and 0870 retail prices by BT.

Misleading use in advertisements of the terms local and national rate to describe 084 and 087 calls, when most networks charge differently.

Poor price awareness and complaints about high costs of calling 08 numbers from mobiles.

Need for a new NGC range not associated with 08 issues for essential public services charged at geographic prices.

What we did

New ranges 0844 and 0871 were introduced that are ring-fenced from discounts and enable price competition in service delivery.

Designations changed in the Numbering Plan to remove all references to equivalent geographic calls.

General Conditions modified requiring equal prominence to be given to 08/09 prices as to 01/02 geographic prices in price lists and on websites.

03 range introduced with mandatory pricing at geographic rates.

What happened

After slow initial take up these ranges are commonly used as alternatives to cheaper 0845 and 0870. However, the cost of calls is much less clear.

This problem has reduced but general price awareness remains poor.

Little evidence that consumers check prices hence price awareness remains poor and complaints continue.

03 take up has been very slow and usage remains low but is growing. As call volumes grow the pressure on call bundles is increasing and prices may rise.

and tried some more ...



The issues

Sexual Entertainment Services started to use 0871 numbers to avoid ICSTIS/PPP regulation.

Increasing use of 0871 for low cost Premium Rate types of services and scams.

High levels of complaints about service migration from geographic to 0870 numbers to enable revenue sharing but leading to high retail prices esp. from mobiles.

What we did

Direction made requiring all SES to migrate to the new 098 range set aside for this use. Access to SES can more easily be barred.

PhonepayPlus (Lite) regulation extended to services using 0871/2 numbers.

0870 regulation changed to remove support for revenue sharing and enable calls to be priced as geographic i.e. similar to 03.

What happened

Issue resolved.

Reduction in 0871 scams but PPP regulation thought to be too onerous for some 'legitimate' services leading to some migration to 0844.

High levels of service migration to other 08 ranges to retain a revenue share at a cost to industry. A few fixed networks but no mobiles have reduced retail prices. Hence many consumers still believe calls are expensive.

But mobiles remained a major problem



Regulation was focussed on fixed lines while the world become more mobile focussed



What has changed?

EC Framework and transposition



New EC Framework provides the power to set maximum prices and tariff principals

In May this was transposed into the Communications Act

What are the options we considered?

Revision the structure



Predictably increasing prices and
clear demarcations



Freephone

080/050/116
Free to caller

Geographic rated numbers

01, 02, 03*
Ideally in bundles

Mobile related numbers

07: Either mobile or priced similarly
Remove incentives for fraud or hidden revenue raising

Lower cost geographic access/service numbers

08 range – service charge up to 10 ppm
No misleading pairs (0870/0871, 0845/0844)

Premium service numbers

09 – higher charges – up to 150ppm or above with pre-call announcements
Restructured to allow ease of blocking of inappropriate services
Supportive of new

Directory enquiries

118: Supporting innovation and price competition

* May wish to include 055/056 Corporate/VoIP ranges

Dealing with the revenue sharing ranges (08 / 09 /118)

Rely on maximum prices alone





- Setting maximum prices would address many of the problems
 - It would provide a clear upper bound to the potential for consumer detriment.
 - It should also foster greater transparency
 - Competition between SPs could potentially increase to the extent that SPs would be free to select a number range that corresponded to their preferred price point
 - Though the strength of competition would depend on the number of separate price points.
- However, this would be a significant regulatory intervention
 - It requires Ofcom to establish a view on the maximum permissible prices potentially for a large number of separate price points and then ensure that this remained relevant into the future
 - It would limit the ability of OCPs to compete
 - To the extent that maximum tariffs are seen as not enabling OCPs to cover their costs, there is the risk that some (especially mobiles) may cease to carry calls to certain number ranges
 - New price caps would necessarily be substantially lower than many current mobile charges – we estimate a revenue reduction of up to £400M
 - Lastly, maximum prices would also leave open the potential for disputes between OCPs and TCPs

Unbundle the tariff



- Set tariff principles separating the overall call price into two components: an Access Charge (AC) and a Services Charge (SC).
 - The AC would cover the cost and returns of originators
 - The SC would cover the costs and returns for service providers and terminators
- This approach would allow a clearer statement of price to consumers.
 - Prices could be unambiguously communicated by service providers
 - SPs would then be free to compete on the price of their services
 - Competition between phone companies would also be enhanced
 - It should also remove the basis for the current wholesale disputes.
- Our proposal included:
 - maximum price ceilings for the SCs to ensure number range differentiation; and
 - controls on the ACs to ensure simplicity, ideally only one access charge for each pricing package offered to a consumer
- Key risk is that consumers will not respond as hoped.
 - We have conducted behavioural economics experiment (discussed further on).



 **CALL: 0909 879 1234**
This call costs £1 per minute plus your phone company's charge.

Freephone



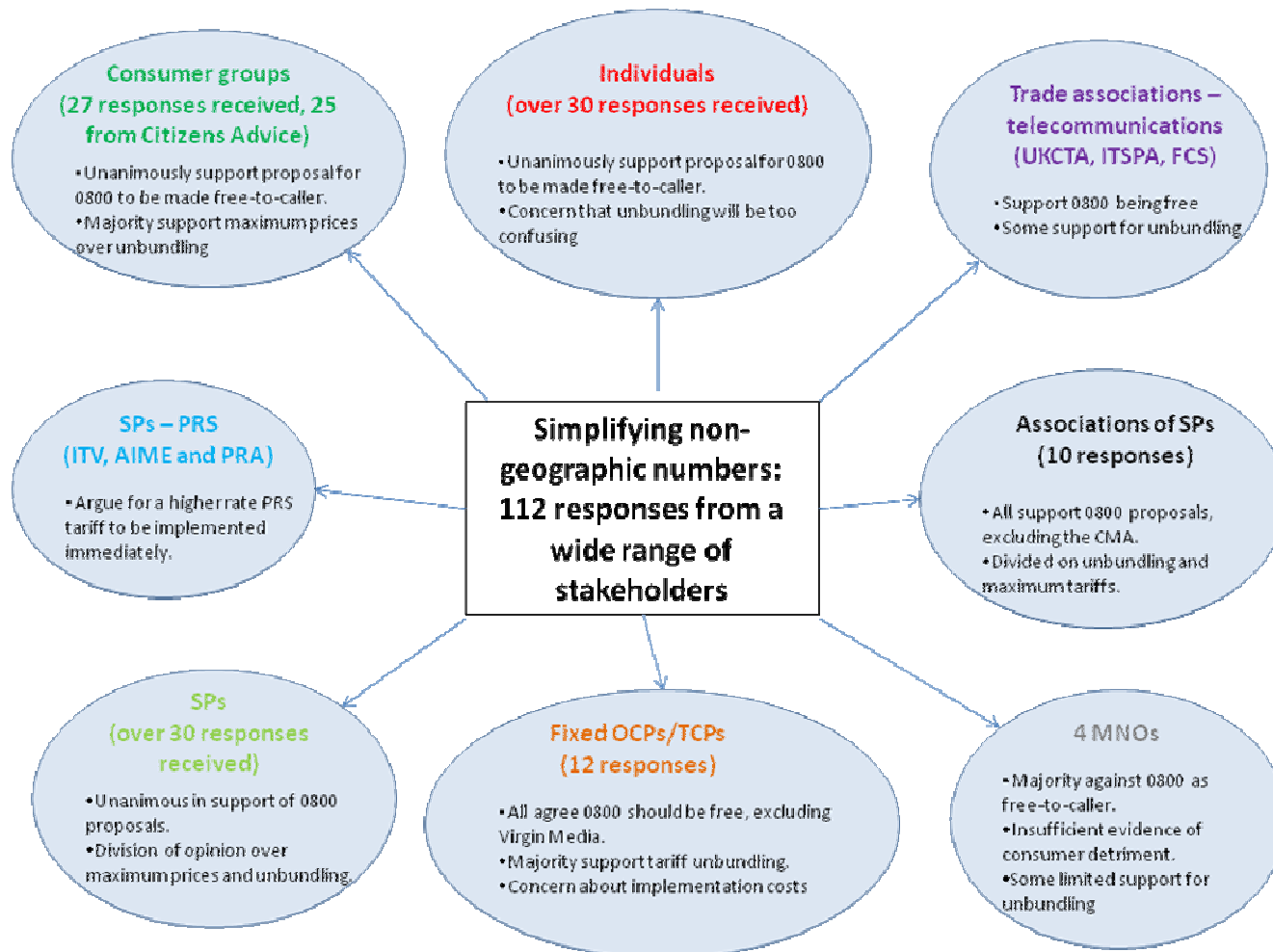
- Freephone – free to caller?
- Intuitively attractive but raises some serious questions:
 - Who pays and how much?
 - Will it impact on SPs demand?
 - How will MNO and SPs react?
 - Migration/call blocking
- Are there other options?
 - Freephone unbundling?
 - Another range?

What have we done since the consultation?



- Detailed examination of consultation responses
- Industry working groups
- Further research and experimentation

Response to the consultation



Industry working groups



Three Groups: Several meetings from June-September

- **Commercial:**

Has been considering the commercial implications of the unbundled and maximum tariff proposals and a range of implementation issues, for example:

- Assumed handover point
- Who pays for transit
- Migration to service charges (SCs) and simplification of SC price points

- **Technical:**

A sub-set of the commercial group, considering the technical issues around an unbundled tariff approach, in particular to identify what changes could be required to billing systems.

- **Communications**

Developing proposals for how any new charges could be communicated to consumers in an effective, consistent way, including potential development of imagery surrounding different number ranges and terminology for the unbundled tariff.

Industry working groups



Group outputs

- **Commercial Group:**

A list of relevant issues and proposals about necessary considerations before implementation of the unbundled tariff approach, some group consensus on certain points, range of views presented on others, general points include:

- Simplification of existing price points, i.e. a reduced number of service charges
- A standardised process for notifying changes to service charges
- A centralised data point for all service charges
- Opportunity for standardised approach to who pays for transit, although group divided on who should pay.

- **Technical Group**

An industry agreed list of questions and assumptions about relevant system and technical considerations in order to implement the unbundled tariff.

Industry working groups



Group outputs (cont)

- **Communications Group**

A range of proposals and options for communicating changes to consumers, including ideas about possible lead-in times. Specific proposals include:

- A proposed set of images/logos to represent different number ranges.
- That these images should be led and used primarily by Ofcom (although available to CPs) to inform and educate consumers about the type and price of calls to different non-geo numbers.
- Proposed terminology for the unbundled tariff in advertising:
“your call will cost Xp per minute plus your phone company’s access charge”
- Minimum 3-6 months lead-in time for communications changes
- Further discussion with consumer groups and other affected parties on proposals.

We will use the outputs of these working groups to inform our next consultation and will consult specifically on some of the options put forward by the groups.

Additional information and research



- Significant exercise of additional information gathering and research:
 - to update information from December 2010 consultation; and
 - new information/research to evidence/support our decision making in next consultation

• SP survey	<ul style="list-style-type: none"> • Impact on SPs of changes in regime • Understanding of constraining factors of current regime 	• Expected completion date – end October 2011
• Consumer research	<ul style="list-style-type: none"> • Through regular consumer omnibus survey • Update of consumer data from 2009 	• Survey completed by end October
• S135 requests to key stakeholders	<ul style="list-style-type: none"> • Update of information from December 2010 consultation • Additional/new evidence sought on non-geo graphic numbers; consumer behaviour and market changes 	• Responses expected end October/early November
• International	<ul style="list-style-type: none"> • Engagement with BEREC on different approaches • International case studies – what can we learn? 	• Case studies expected end October
• London Economics study	<ul style="list-style-type: none"> • Behavioural economics study on consumer responses to different pricing structures - workshop on 26 October 	• Completed – published September 2011
• Ongoing stakeholder meetings	<ul style="list-style-type: none"> • NGCS focus groups; working groups, bilateral meetings • Wider stakeholder discussions – PP+; AIME; FCS etc 	• Ongoing

London Economics/UCL Study



- Study tells us:
 - a. Providing accurate price information as close as possible to the point of call is important
 - b. Maximum prices helps compared to *status quo* but worse than exact information

Useful to rank options in terms of what consumers may see:

Single price with exact info

“call costs are X pence per minute”

>

Unbundling with exact info

“calls cost X pence per minute plus your network’s access charge”

>

Max (single) price

“call costs are maximum X pence per minute”

- To harness these benefits, need to think about the price publication obligations on SPs

Also

- There is some evidence unbundling helps in choosing the best telecoms package

CAUTION: this is not reality and the lessons that can be drawn are limited

What next?



- Consultation at the end of January – including detail of regulation and implementation for freephone and main revenue share ranges' issues
- Further small consultations in early 2012 for 070/076, higher PRS limits and possible 05 range
- Statements on final regulations and changes final calendar quarter 2012

Continued engagement



- We want to maintain dialogue with industry to refine the new regime
- We will seek to put information into the public domain as we receive it