The distributional effects of high termination charges

Introduction

1. At the meeting held with the CC on 25 January 2002, the panel requested more information about the distributional effects of high termination charges. Oftel’s view of the distributional effects of high termination charges was outlined in paragraphs 5.9 to 5.16 of its statement ‘Review of the charge control on calls to mobiles’ [26 September 2002] (‘the Statement’). This paper explains in more detail the market research which contributed to that discussion.

2. This paper examines the greatest adverse distributional effects of high termination charges which affect people without a mobile phone. Mobile users are also likely to be adversely affected by high termination charges, because Oftel does not believe that the retail market is sufficiently competitive to ensure that all termination profits are competed away in lower retail prices. In future work Oftel intends to quantify these adverse effects also.

3. This paper first gives an overview of the market research Oftel carries out each quarter. The research findings are then outlined for a) UK households and b) UK adults. Two annexes are attached with diagrams that summarise the market research results.

Summary

4. The main findings of the market research are that, based on information collected in May 2001, about 3 million households and 8 million people do not own a mobile phone but do call mobile phones. These people suffer from high termination charges and would not benefit if high termination charges resulted in lower retail mobile prices. On average, these people are from lower income households and are more elderly than the general population profile.

Background to Oftel’s data

5. Oftel conducts surveys each quarter amongst 2000 UK adults aged 15+ representative of the UK population in terms of gender, age, social grade, and spread across geographic regions. Interviews are conducted face to face in respondents’ own homes. Some of the questions ask about personal use and opinion of different telecoms services and some of the questions ask about the household’s use of different services. Given the sample size, the results are subject to a margin of error in the region of +/- 1-2% although this error is higher amongst smaller subgroups of the full sample.

6. Every interview asks whether the household has a fixed line phone, whether the individual being interviewed has or uses a mobile, and how many mobile phones the household has in total. These questions enable Oftel to segment the results into different telecoms usage profiles, including:

- “fixed only households” – the household has a fixed phone but no-one in the household has a mobile;
“fixed and mobile households” – the household has a fixed phone and at least one person in the household also has a mobile;
• “mobile only households” – the household does not have a fixed phone but at least one person in the household has a mobile;
• “untelephoned” – the household does not have a fixed phone and no-one in the household has a mobile.

7. In May 2001 (the most recent data used in the Statement):
• 21% of households were fixed only households;
• 72% of households were fixed and mobile households;
• 6% of households were mobile only households;
• 1% of households were untelephoned.

Distributional effects

8. The 93% of households who had a fixed phone, were asked:

Approximately what proportion of the calls FROM the fixed phone in your home are to mobile phones?

More than three-quarters
Around three-quarters
Over half but less than three-quarters
Around half
Less than half, but over a quarter
Around a quarter
Less than a quarter
None

9. This question enabled Oftel to assess the proportion of fixed only households and individuals who call mobiles but do not own a mobile phone. This group suffers from high termination charges but would not benefit directly from any lower retail prices for retail mobile services.

Results

A. Households

10. 59% of fixed only households make calls to mobiles. This means that about 3 million (12%) UK households make calls to mobiles from a fixed phone but do not own a mobile phone. ¹

11. Of the 3 million households, 22% of calls (by volume) from their fixed line are to mobiles. This result was obtained from the mean answers to the question in paragraph 8 excluding the ‘none’ responses.

¹ Fixed only households are less likely than households in general to make calls to mobiles.
**Correlation between household income and mobile ownership**

12. The research shows that lower income groups are less likely on average to have mobile phones (outlined in paragraph 5.15 of the Statement). Figure 1 below shows the evidence supporting this point, showing the correlation between household income and penetration of mobiles within the household. This information was derived from standard questions on Oftel's quarterly residential surveys asking about whether the household has a fixed phone, whether anyone in the household has a mobile, and the household’s total annual income (before tax and other deductions).

13. The market research also shows that although households on lower incomes are less likely to call mobile phones, 72% of the lowest income households still call mobile phones. This is shown in Figure 2 and outlined in paragraph 5.15 of the Statement.

**Figure 1**

% of all UK households who have both a fixed & mobile phone, by total annual household income (before tax and other deductions), May 2002

- Under £9.5k: 46%
- £9.5-17.499k: 68%
- £17.5-29.999k: 85%
- £30-49.999k: 93%
- Over £50k: 96%

**Figure 2**

% of UK households with fixed phones who *never* call mobiles, by total annual household income (before tax and other deductions), May 2002

- Under £9.5k: 28%
- £9.5-17.499k: 17%
- £17.5-29.999k: 8%
- £30-49.999k: 7%
- Over £50k: 3%

14. For the 12% of households that have a fixed line but no mobile and who make calls to mobile, a distribution by income and age is provided in Figure 3. This figure shows that 48% of these households have an annual income of less than £9,500 and 66% are older than 55 years old.
**Figure 3** Age and income profile of fixed–only households who call mobile phones, May 2001

![Figure 3](image)

**B. Individuals**

15. About 8 million people (18% of all adults) do not personally have or use a mobile but make calls to mobiles from their fixed phone at home and hence suffer from higher termination charges without potentially benefiting from lower mobile prices. This was the figure quoted in the paragraph 5.11 of the Statement. It is derived from the research findings that:

- 28% of all adults have a fixed phone in their household but did not personally have or use a mobile phone; and
- of this group, 66% make calls to mobile phones.

16. The results of the question shown in paragraph 8 above enable further analysis by ‘weight’ of calling mobiles amongst the 18% of all adults who don’t personally have mobiles but call mobiles from their fixed phone. 28% of this group said that at least a quarter of all calls from their fixed phone were to mobile phones, which equates to about 5% of all adults – 2 million people.

**Mobile users**

17. Another group identified by Oftel as potentially significant ‘losers’ from distributional effects are those mobile owners who make more calls to other mobile networks (off-net calls) than other calls such as on-net calls or calls to a fixed network. The market research evidence on this shows that the most notable factor influencing the amount of off-net calling is age: as age increases the proportion of off-net calls decreases, with off-net mobile to mobile calls as a proportion of total calls from their mobile twice as high for consumers aged 16-24 than those aged over
65 years (20% of mobile calls compared to 9%). Oftel intends to provide further quantification in future work.

Further research

18. Oftel is currently repeating all of the relevant questions and analysis detailed above on its current survey (February 2002) in order that the analysis and information provided on distribution effects in the Statement can be updated and further quantification of effects undertaken. Market research results are expected mid to end March 2002.
Market research on the distributional effects of high termination charges
Annex A – diagram by UK households

All households

- Fixed only: 21%
- Fixed & mobile: 72%
- Mobile only: 6%
- Unphoned: 1%

59%

- make calls to mobiles
- 3 million households

Annual household income per annum

- over 50k: 2%
- 25-50k: 48%
- 9.5-25k: 39%
- under 9.5k: 11%

Calls to mobiles as % of total calls from fixed line

- 22%
- 78%

Age distribution (years)

- 55+: 66%
- 35-54: 23%
- 16-34: 11%
Market research on the distributional effects of high termination charges
Annex B – diagram by UK adults (individuals)

All adults

- Fixed only: 28%
- Fixed & mobile: 65%
- Mobile only: 5%
- Unphoned: 1%

66%

- make calls to mobiles: 8 million adults
- do not make calls to mobiles

28%

- At least a quarter of total fixed calls made to mobile: 2 million adults
- Less than a quarter of total fixed calls made to mobiles: 72%