



**Consumer
Focus**
Campaigning for a fair deal

Consumer Focus response to Ofcom Wholesale mobile voice call termination

August 2009

Ofcom Wholesale mobile voice call termination

About Consumer Focus

Consumer Focus welcomes the opportunity to respond to the Ofcom Wholesale mobile voice call termination market review. This response is not confidential and we are happy for it to be published in full on your website.

Consumer Focus is the statutory organisation campaigning for a fair deal for consumers in England, Wales, Scotland, and, for postal services, Northern Ireland. We are the voice of the consumer, and work to secure a fair deal on their behalf. We were created through the merger of three consumer organisations – energywatch, Postwatch and the National Consumer Council (including the Welsh and Scottish Consumer Councils). The new approach allows for more joined-up consumer advocacy, with a single organisation speaking with a powerful voice and able to more readily bring cross-sector expertise to issues of concern.

The Consumer Focus Forward Work Programme to March 2010 sets out the work that we will undertake to champion the rights of consumers, and includes a work project to scope consumer needs and the opportunities to influence improvements in the mobile phone sector. We are working with the Communications Consumer Panel to define a potential working partnership, and the work we are carrying out in the mobile phone sector is intended to inform and complement, rather than duplicate, Ofcom's 'Mobile Sector Assessment' and other work carried out by the regulator. Consumer Focus is in the process of formulating consumer priorities around which our advocacy and campaigning work will be focused. This is being carried out on the basis of a consultation exercise we ran from April to June 2009 and the results of externally commissioned research into consumer priorities in the mobile phone sector.

Responses to specific questions

Question 1.1: Should we change our policy approach to regulating MCT? For example, given the possible benefits, should we adopt a policy of reducing termination rates as far and fast as we reasonably can, within the boundaries of sound economic policy, while recognising underlying cost differences? If our policy approach did change, what do you think are the relevant factors for us to consider in deciding on the best future policy to regulating MCT?

Consumer Focus supports the Communications Consumer Panel's comments that regulation is needed for the time being. We support the view that Mobile Termination Rates should be reduced 'as fast as possible, in a predictable way, in accordance with reducing cost trends (but not below economically justifiable levels).'¹

Consumer Focus encourages Ofcom to consider that any future changes to the termination regime do not increase complexity for consumers. Many consumers are already struggling with the sheer volume and complexity of tariffs to choose from when deciding on a mobile package.

¹ <http://www.communicationsconsumerpanel.org.uk/MTR%20implications%20for%20consumers.pdf> p2

However, there should not be a reduction of choice in the market.² It is important that consumers are given the tools to be able to choose their mobile phone package with confidence.

Consumer Focus is working to ensure that the consumer voice is heard in debates around the future of this complex issue. There is a lack of information, knowledge and transparency around the issue of MCT and how termination rates ultimately impact on bills paid by consumers. We acknowledge the complexity of call termination regimes and understand the issue is difficult to convey in a short, precise and meaningful way to consumers. However, we believe it is essential that consumers are made aware of the issues surrounding termination rates. Information must be readily available, for example through the provision of a consumer factsheet or as part of the FAQ system on the Ofcom website.

Question 1.2: Are there additional options (other than the six set out in this consultation) that we should consider? If so, what are they and what advantages/disadvantages do they offer?

Consumer Focus would like to reiterate the need for better consumer information and stresses its concern on the issue of transparency.

Question 1.3: Do you agree with our preliminary views set out for each of the options? If not, what are the additional factors that we should take into consideration and why are they relevant to our analysis?

In particular Consumer Focus would like to draw Ofcom's attention to the following paragraphs:

Paragraph 6.25: While a deregulatory approach might appear attractive, there is a significant risk that it would be impractical in reality. Complete removal of ex-ante regulation would risk a breakdown in connectivity, meaning users of some networks would be no longer able to call users of another network, or a return to excessively high termination prices. We might credibly expect this approach to cause significant customer detriment, lead to a high volume of ongoing ex-post disputes or complaints and, in particular, to present a problem for new entrants who have less bargaining power.

Paragraph 6.26: If we concluded that deregulation was not a viable option, and that there was a lack of competition on termination markets, some form of regulation of termination rates may be necessary. We consider each of the five remaining options in turn.

Consumer Focus agrees with the preliminary view of Ofcom concerning the deregulatory option, ie, that there is a risk that de-regulation could lead to a return to excessively high termination charges and this could potentially harm consumers and lessen competition. We believe that, for the time being, some form of regulation of termination rates is necessary. We also support the Communications Consumer Panel's comment that 'when people choose a mobile phone, they usually give little thought or weight to the prices paid by people who need to ring them. This is the main reason for the lack of competitive pressure on MTRs, and the need for regulation in this area.'³

² The price comparison website www.billmonitor.com has technology that enables a detailed scientific analysis of the available options and compares 17,442,280 tariff (contract customers) and value-add bundle combinations from the major operators.

³ <http://www.communicationsconsumerpanel.org.uk/MTR%20implications%20for%20consumers.pdf> p4

Consumer Focus agrees that, for each of the options outlined in the consultation, a good preliminary assessment has been made. We encourage Ofcom to ensure the needs of low-users and vulnerable consumers are taken into consideration when deciding on which approach to take. For example, the highest-spending customers are the ones that mobile operators want to keep and attract. Low spenders, who don't make many calls, may lose out if better packages are offered to other customers. Because having a mobile is now deemed as an essential item,⁴ it is crucial to ensure that low users and vulnerable consumers are not priced out of the market when deciding on the approach to MCT after March 2011.

Consumer Focus agrees with the comments Ofcom has made about lower termination rates being likely to lead to an overall reduction in call usage charges and it being probable that there will be a re-balance by the mobile operators in some form to compensate for the loss of revenue from termination rates. The lowering of these rates is likely to mean that mobile operators will have the potential to offer consumers more competitive call packages at reduced prices.

However, it is possible that low users may lose out if mobile operators decide to collect this lost revenue in another way, for example, increase the cost of lower subscription charges. Other ways that the lost revenue may be collected is by reducing handset subsidies that many consumers are used to when they upgrade or take out a new mobile package. Reduced handset subsidies for consumers could mean that customers are less likely to switch networks, resulting in a detrimental impact on competition.

An option that changes the structure of charging, for example an MCT regime where the receiving party pays⁵, is unlikely to be in consumers' interests. This approach is likely to inhibit the use of mobiles by consumers. We are keen that Ofcom ensures that consumers face minimal confusion; any unforeseen or rapid shift in approach to the MCT regime would not benefit consumers.

⁴ Mobiles have been included in all the minimum family budgets produced by the Minimum Income Standard project - these are based on group discussions of spending levels needed for social inclusion in Britain today http://www.minimumincomestandard.org/downloads/Reports/uprating_report.pdf p20

⁵ The person receiving the call pays for some or all of the call charges.

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Consumer Focus

4th Floor
Artillery House
Artillery Row
London SW1P 1RT

Tel: 020 7799 7900

Fax: 020 7799 7901

Media Team: 020 7799 8005 / 8006