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# Protecting voice-only landline telephone customers

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[Protecting voice-only landline telephone customers](#) – Welsh overview

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## **CONSULTATION:**

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# 1. Overview

The Covid-19 pandemic has demonstrated that telecoms services have never been more important. While many people and businesses now rely on online communications such as email, instant messaging apps and video calls, the traditional fixed-line phone remains vital for customers who choose to take a landline service. In 2019, there were still 1.2m voice-only customers, representing approximately 5% of total residential customers.<sup>1</sup> The overwhelming majority of voice-only landline customers take their service from BT, which has a share of over 75% of such customers.

The prices those customers pay for their voice-only service have been protected since 1 April 2018 through BT's voluntary commitments, which we accepted in 2017. As well as an initial price cut of £7 to line rental, BT also capped increases to line rental and call charges at the rate of inflation (CPI) for three years. These voluntary commitments expire on 31 March 2021. BT has now made another offer of further voluntary commitments, which we propose to accept, in lieu of imposing formal regulation on BT, to ensure continued protections for voice-only customers.

## What we are proposing

The commitments BT has offered, which we propose to accept, are:

- **Continue with an inflation-linked control (CPI+0%) on the basket of line rental and call charges for voice-only products.** We believe a continuation of prices which remain flat in real terms is a proportionate, clear and timely way to continue to protect consumers. BT has also committed to an annual CPI+0% limit on prices for its Home Phone Saver product and a safeguard cap of CPI+2.5% for its line rental product
- **Commitment duration of five years.** This will provide certainty for customers for the next five years and allow us to reassess the right protections once the Public Switched Telephone Network (PSTN) switch-off has taken place, which is scheduled to be completed by December 2025
- **Commitments apply to all voice-only products and services taken by customers, regardless of the technology used to deliver the service.** This will ensure that customers are protected, irrespective of the technology used to deliver the service. We think this is particularly important as customers are migrated to different technologies – such as 'voice over internet protocol' (VoIP) – as a result of PSTN switch-off
- **Commitments also apply to any new products or services introduced throughout the 5-year commitment period** that are offered on a voice-only basis
- **BT to provide information to Ofcom on its compliance with the commitments on an annual basis.** Compliance is an important part of monitoring voluntary commitments. BT will provide Ofcom with an externally-audited annual compliance statement. It will also publish an annual compliance statement on its website.

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<sup>1</sup> "Voice-only" refers to voice-only landline products which feature a call service to and from a fixed connection, the majority of which are currently delivered via the analogue public switched telephone network (PSTN), but which may also increasingly be delivered over digital internet-based (IP) technologies.

## Protecting voice-only landline customers

The overall number of customers taking voice-only products has reduced from 1.5 million customers in early 2017 to 1.2 million in late 2019 - a decline of almost 20%. While BT's volumes are declining, we have seen its total share of customers increasing to over 75% (from just over two-thirds in 2017).

As new and alternative products continue to be developed, we are seeing some wholesale cost uncertainty for providers who currently use copper-based services, which are currently used to deliver the majority of voice-only products, and which we plan to deregulate over the coming years. So, while there are still a limited number of retail providers in addition to BT serving voice-only customers, we expect that over the next few years, the choice of providers will become even more limited. This is because PSTN switch-off will drive providers towards offering IP-based packages, which are more likely to include broadband.

Levels of switching among voice-only customers are low, particularly for BT customers. Voice-only customers also tend to be older, from lower socioeconomic grades, not working, and more financially vulnerable.

We continue to believe that price protection for voice-only customers remains necessary to address our previous concerns from our last review in 2017, which included lack of competition in the market and poor value for money for this group of customers. We welcome the further voluntary commitments BT has offered, which build on the foundations of the previous protections. We have carefully considered these commitments and our provisional view is that they would offer sufficient protections for these customers, reflecting current market conditions.

These voluntary commitments would not prevent us from reviewing the market or considering regulatory intervention at a later date, if we were to consider it appropriate to do so. If we decide to accept BT's commitments following our assessment of responses to this consultation, we still intend to continue to monitor this market.

## Next steps

In this document, we set out our proposed approach to ensuring continued protections for voice-only customers. We ask for stakeholders to respond to this consultation by 21 January 2021. Once we have considered representations, we expect to issue a statement of our decision in March, ahead of the expiry of the existing commitments.

## 2. Introduction

- 2.1 For a small but significant number of customers who choose to take a voice-only service, the traditional fixed line phone remains vital.<sup>2</sup> In 2019, there were still 1.2 million voice-only customers, approximately 5% of total residential voice-only customers. The overwhelming majority of these customers take their service from BT, which has a share of over 75%.<sup>3</sup>
- 2.2 The prices which those customers pay for the voice-only service have been protected since 1 April 2018 through BT's offer of a voluntary commitment, which we accepted in 2017 following a review of the market.<sup>4</sup>
- 2.3 In this section we explain the circumstances leading to the introduction of the existing commitments, together with information showing BT's compliance with them. We also explain our concerns arising from the 2017 review, which remain relevant in considering whether we should accept BT's proposed new commitments in lieu of imposing formal regulation on BT. We also explain our role in the protection of voice-only customers.

### Existing voluntary commitments on voice-only services

#### Our February 2017 consultation made proposals to impose regulation

- 2.4 In 2016-17, we reviewed the market for standalone voice-only telephone services because we were concerned that customers buying these services on a standalone basis could be missing out on the benefits of competition. At the time of that review, retail prices were rising, despite wholesale prices falling in real terms - as shown in Figure 1 below.<sup>5</sup> We were also concerned about levels of consumer engagement, which were low.

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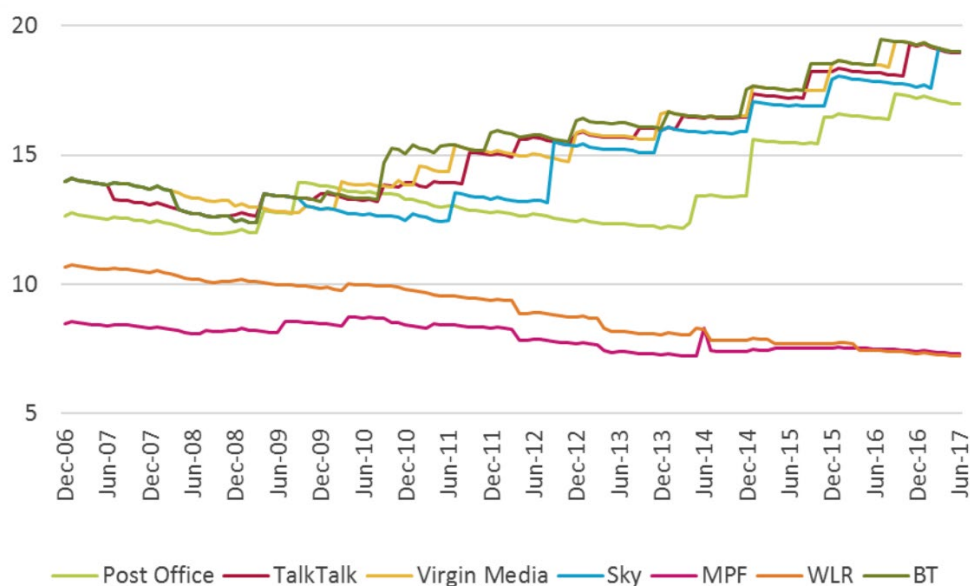
<sup>2</sup> "Voice-only" refers to voice-only landline products which feature a call service to and from a fixed connection, the majority of which are currently delivered via the analogue public switched telephone network (PSTN), but which may also increasingly be delivered over digital internet-based (IP) technologies.

<sup>3</sup> BT s135 response dated 17 November 2020.

<sup>4</sup> [https://www.ofcom.org.uk/data/assets/pdf\\_file/0015/107322/standalone-voice-only-statement.pdf](https://www.ofcom.org.uk/data/assets/pdf_file/0015/107322/standalone-voice-only-statement.pdf)

<sup>5</sup> From 2009 to the time of the review, voice-only customers had been exposed to increasing line rental prices, despite wholesale charges for Wholesale Line Rental (WLR - the underlying technology which supports the majority of voice-only services) falling by up to 27% in real terms.

Figure 1: Wholesale and retail line rental price movements (£/month at June 2017 prices)



Source: February 2017 consultation

- 2.5 We found evidence that competition was not benefiting this group of customers and price increases were generally not justified given declining wholesale costs. We considered that customers buying voice-only services on a standalone basis were receiving poor value for money.
- 2.6 In February 2017, we published a consultation on our proposals for dealing with those issues (the ‘February 2017 consultation’).<sup>6</sup> In particular, we provisionally identified a market for standalone fixed voice access and a market for standalone fixed voice calls, both of which were UK-wide (excluding the Hull area). We proposed that BT held significant market power (SMP) in both markets.<sup>7</sup> To address the consumer detriment we identified, and which we considered arose from a lack of competition in the markets, we proposed several options for regulation, including a one-off price cut on BT’s retail line rental price, and further consumer engagement remedies.

<sup>6</sup> Consultation: [Review of the market for standalone landline telephone services \(February 2017\)](#)

<sup>7</sup> The concept of ‘SMP’ is, in this context, defined under legislation as being equivalent to the competition law concept of ‘dominance’, namely a firm is particularly deemed to have SMP if, either individually or jointly with others, it enjoys a position equivalent to dominance, that is to say a position of economic strength affording it the power to behave to an appreciable extent independently of competitors, customers and ultimately consumers.

## **Our October 2017 statement concluded that consumers were worse off because of insufficient competition**

2.7 In October 2017, we published our statement setting out our conclusions in light of the further market assessment we made following the February 2017 consultation (the 'October 2017 statement').<sup>8</sup>

2.8 In our market assessment we concluded, in particular, that:

- BT's position in the markets for the purchase of voice-only access and calls was consistent with the position we set out in the February 2017 consultation for standalone fixed voice services more generally;
- BT was the dominant provider of standalone fixed voice services with around 70% market shares;
- we considered that insufficient competition in these markets had led to customers being materially worse off.

2.9 In relation to the consumer detriment, we explained our concerns about voice-only customers stemmed from the fact that line rental prices had been increasing in real terms since 2010, despite falling wholesale charges for products used to provide line rental. We also identified a concern that the provision of standalone fixed voice services was not competitive.

2.10 We concluded that a price cut was essential to address our concerns. In addition, we also considered low consumer engagement was another factor which contributed to cementing BT's market position, and therefore we considered it important this should be addressed. However, given our concerns were addressed by BT's proposed voluntary commitments (which we discuss below), we decided not to proceed with the imposition of regulatory remedies. We also did not consider it necessary to reach a formal determination of significant market power (SMP) in the markets for voice-only access and calls.

2.11 In our February 2017 consultation, we had proposed that voice-only and split purchase customers should be considered part of the same market because we understood that it was not technically possible for providers to differentiate between these customers.<sup>9</sup> However, in our October 2017 statement, after further assessing the position, we noted that it was in fact possible for providers to differentiate between voice-only and split purchase customers, and that they could choose to set different prices (or other terms and conditions) between these two customer groups if they wished.

2.12 In our October 2017 statement, we noted that split purchasers are typically younger and more technologically literate than voice-only customers, and, by definition, have internet access which allows them to access alternative offers more easily. Unlike voice-only customers, split purchasers have a wide range of choices available to them, such as dual-

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<sup>8</sup> Statement: [Review of the market for standalone landline telephone services \(October 2017\)](#)

<sup>9</sup> Split purchases customers take a voice-only service from one provider and a broadband service from a different provider.

play (telephone and broadband) bundles. We therefore focused our intervention on voice-only customers.

### **BT offered voluntary commitments for retail voice-only customers which met our requirements**

- 2.13 In response to our February 2017 consultation proposals, BT proposed a set of voluntary commitments to address the concerns we had identified. BT committed to:
- a) a one-off, line rental price reduction of £7 per month (including VAT) and limiting subsequent increases to CPI+2.5%;
  - b) raise the prices of a basket of call and line rental products by no more than inflation (CPI+0%) each year;
  - c) not increase the charges for Home Phone Saver<sup>10</sup> before 1 April 2021;
  - d) report information to allow Ofcom to monitor BT's compliance with the voluntary commitments; and
  - e) a commitment to work to improve the information available, to ensure that both voice-only customers and split purchasers were aware of possible savings.
- 2.14 We considered the commitments would bring certainty and benefits for customers more quickly than a formal intervention. We noted that the proposals would bring prices closer to cost and so mitigate the immediate consumer detriment, while also supporting the development of information remedies to encourage consumers to shop around for the best deal and promote increased competition.
- 2.15 BT committed to those voluntary commitments for a period of three years, beginning on 1 April 2018 and ending 31 March 2021.

## **Compliance with the voluntary commitments**

### **BT commitment to limit line rental price increases to CPI+2.5%**

- 2.16 Following the initial £7 reduction in the monthly price of line rental to £11.99 on 1 April 2018, BT subsequently increased the price by 1.25% to £12.14 on 31 March 2020. This was below the 4.8% increase for 2019/20 permitted under the voluntary commitments.<sup>11</sup>
- 2.17 To date, BT has not increased the line rental price in 2020/21, but the voluntary commitments would allow a price increase of up to 4% (i.e. up to £12.63).<sup>12</sup>

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<sup>10</sup> The Home Phone Saver product bundles line rental, calls and features into a package. See BT's website: [Learn about Home Phone Saver](#).

<sup>11</sup> CPI of 2.3% (November 2018) + 2.5% = 4.8%.

<sup>12</sup> CPI of 1.5% (November 2019) + 2.5% = 4.0%.



## BT's commitment to limit the basket of line rental and call products price increases to CPI+0%

- 2.18 BT has provided us with information showing how rental and call price changes compared to the voluntary commitments for the financial periods 2018/19, 2019/20 and 2020/21.<sup>13</sup> Although the information for 2020/21 is provisional as the financial year is not yet complete, it provides a good estimate of prices changes. BT has told us it expects to increase prices on 31 March 2021 (the last day of the current voluntary commitments) by CPI+3.9%, however this is unlikely to impact the average price change for 2020/21, and therefore compliance with the commitments.<sup>14</sup>
- 2.19 Figure 2 below shows the price changes relating to the basket of line rental and call products allowed under the voluntary commitments, compared to the actual price changes which BT made.

**Figure 2: Basket of line rental and calls: price changes**

	2018/19	2019/20	2020/21	3 Year Total
Allowed price change (CPI)	3.16%	2.29%	1.50%	7.11%
Actual price change	3.98%	0.34%	-0.65%*	3.65%*

\*The price change for 2020/21 (and hence the 3 year total) is provisional and likely overestimates the annual price change as BT has assumed all rental and call prices will increase by CPI+3.9% on 31 March 2021. Source: BT response dated 17 November 2020 to question 3 of the s135 notice dated 2 November 2020

- 2.20 We note that BT did not meet its voluntary commitments in 2018/19 as a result of a modelling error. BT made a charitable donation of £142k to recognise the impact of this error.
- 2.21 Figure 2 also shows that, over the three-year period, BT is expected to have increased basket prices by less than allowed under its voluntary commitments, with basket prices increasing by 3.65% compared to the 7.11% permitted under the commitments. The basket price reduction in 2020/21 was mostly due to BT capping the monthly price of some out of bundle calls at £5 in response to Covid.<sup>15</sup>

## BT conducted voluntary trials to test customer information remedies

### Voice-only customers

- 2.22 As part of the voluntary commitments, BT agreed to trial remedies to improve the information available to voice-only customers to encourage them to engage and help them to decide if they were on the best deal. In 2018, BT conducted a randomised control trial

<sup>13</sup> Spreadsheet provided in BT response dated 17 November 2020 to question 3 of the s135 notice dated 2 November 2020.

<sup>14</sup> BT s135 response dated 17 November 2020. The price increase is consistent with BT's announcement '[annual price changes and CPI](#)'.

<sup>15</sup> See BT website: [Keeping us all connected at a critical time](#) [accessed 20 November 2020]

(RCT) of different types of information sent by letter aimed at improving engagement amongst BT's voice-only customers. The trials tested the effectiveness of sending these customers different types of information, via letter, about the deals available to them. There were six groups of customers, in addition to a control group, and each was sent a letter that included different types of information, such as information on average speed, voice-only offers and the option to take up a broadband service.

2.23 Key findings included:

- A general letter, which didn't include much detailed information, did not have a significant impact on levels of engagement, and actually led to increased contact and complaints to BT without encouraging shopping around;
- Sending a detailed voice-only offer, or information on average spend, in the letter led to a statistically significant increase in engagement, although this was relatively small in absolute terms; and
- Adding information about broadband services generally reduced the level of engagement, suggesting that the inclusion of information which many of these customers might see as irrelevant weakened the other messages in the letter.<sup>16</sup>

2.24 In February 2020, we introduced new requirements on providers to notify their residential and business customers when their minimum contract period is coming to an end (end-of-contract notifications, or ECNs), and to tell residential customers about the best tariffs available from their provider (annual best tariff notifications, or ABTNs). BT noted its view that ECNs and ABTNs seek to achieve broadly the same outcomes as the behavioural commitments communications which we had previously accepted, and that to send both would be disproportionate and potentially confusing.<sup>17</sup>

2.25 We agreed that requiring BT to send separate information as part of its commitments for voice-only customers, in addition to the ECN and ABTN which it would now also be sending, could cause confusion. But we also considered it important to incorporate any insights gained from the randomised control trial and accompanying survey into BT's communications. In light of the findings, BT therefore formulated revised text to be used in ECN and ABTN communications sent out to these customers.

### Split purchase customers

2.26 The voluntary arrangement on information remedies also included a commitment to send an annual statement to split purchase customers, to help them take advantage of the deals on offer in the market by explaining that they could get a better deal if they purchased services as part of a bundle. BT issued split purchaser annual statements until ECNs and ABTNs came into effect, at which point it incorporated these statements into the new annual communications.

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<sup>16</sup> [Consultation document: Trialling consumer remedies \(September 2019\)](#)

<sup>17</sup> [Statement: Helping consumers get better deals - statement on end-of-contract notifications and annual best tariff information \(May 2019\), Section 6 pp. 67 - 68](#)

## Our role in protecting voice-only customers

- 2.27 We have noted that BT has now offered new voluntary commitments (which we assess in Section 4) upon the expiry of the existing commitments on 31 March 2021. Whilst we are minded to accept those commitments in lieu of imposing formal regulation on BT such as, for example, a price cap (which is what we proposed in the 2017 February consultation), we will explain our role in protecting voice-only customers, given our continuing concerns.
- 2.28 The legal framework relevant to our consideration of the issues considered in this consultation is set out in Part 2 of the Communications Act 2003 (the “2003 Act”). Specifically, one type of regulation we may impose on communications providers (such as BT) is significant market power (SMP) conditions.
- 2.29 In light of BT’s proposed new commitments, we are not setting out in this consultation any formal proposals for defining relevant markets, SMP designation and SMP conditions. However, our analysis in this consultation builds on our considerations under the market review process conducted in 2017.
- 2.30 Our proposals in this consultation focus instead on addressing the concerns we continue to have in protecting voice-only customers. In that regard, our proposals are seeking, in particular, to secure or further the performance of our general duties under section 3 of the 2003 Act in furthering the interests of citizens and of consumers, where appropriate, by promoting competition. In so doing, we have had regard to various factors including:
- the desirability of promoting and facilitating the development and use of effective forms of self-regulation;
  - the needs of persons with disabilities, of the elderly and of those on low incomes;
  - the different interests of persons in the different parts of the United Kingdom, of the different ethnic communities within the United Kingdom and of persons living in rural and in urban areas; and
  - the interests of those consumers in respect of choice, price, quality of service and value for money.
- 2.31 In performing our general duties in this context, we have also had regard to the principles under which our regulatory activities should be transparent, accountable, proportionate, consistent, and targeted only at cases in which action is needed, including by reference to Ofcom’s general regulatory principles. Additionally, our proposals seek to secure that we do not impose on BT any unnecessary regulatory burdens in light of its proposed new commitments.

## Impact assessment

- 2.32 The analysis presented in the whole of this consultation represents an impact assessment, as defined in section 7 of the 2003 Act.
- 2.33 Impact assessments provide a valuable way of assessing different options for regulation and showing why the preferred option was chosen. They form part of best practice policy-

making. This is reflected in section 7 of the 2003 Act, which means that generally Ofcom has to carry out impact assessments where its proposals would be likely to have a significant effect on businesses or the general public, or when there is a major change in Ofcom's activities. However, as a matter of policy Ofcom is committed to carrying out and publishing impact assessments in relation to the great majority of its policy decisions. For further information about Ofcom's approach to impact assessments, see our guidelines, 'Better policy-making: Ofcom's approach to impact assessment'.<sup>18</sup>

- 2.34 Specifically, pursuant to section 7, an impact assessment must set out how, in our opinion, the performance of our general duties (within the meaning of section 3 of the 2003 Act) is secured or furthered by or in relation to what we propose.

## Equality impact assessment

- 2.35 Section 149 of the Equality Act 2010 (the "EA 2010") imposes a duty on Ofcom, when carrying out its functions, to have due regard to the need to eliminate discrimination, harassment, victimisation and other prohibited conduct related to the following protected characteristics: age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex and sexual orientation. The EA 2010 also requires Ofcom to have due regard to the need to advance equality of opportunity and foster good relations between persons who share specified protected characteristics and persons who do not.
- 2.36 Section 75 of the Northern Ireland Act 1998 (the "NI 1998") also imposes a duty on Ofcom, when carrying out its functions relating to Northern Ireland, to have due regard to the need to promote equality of opportunity and regard to the desirability of promoting good relations across a range of categories outlined in the NI 1998. Ofcom's Revised Northern Ireland Equality Scheme explains how we comply with our statutory duties under the NI 1998.<sup>19</sup>
- 2.37 To help us comply with our duties under the EA 2010 and the NI 1998, we assess the impact of our proposals on persons sharing protected characteristics and in particular whether they may discriminate against such persons or impact on equality of opportunity or good relations.
- 2.38 We do not consider that our proposals have equality implications under the EA 2010 or the NI 1998.

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<sup>18</sup> See Ofcom's website, <http://www.ofcom.org.uk/about/policies-and-guidelines/better-policy-makingofcoms-approach-to-impact-assessment/>.

<sup>19</sup> Ofcom, 2014. *Revised Northern Ireland Equality Scheme for Ofcom*, January 2014 (updated December 2019). [https://www.ofcom.org.uk/\\_data/assets/pdf\\_file/0023/123737/Revised-NI-Equality-Scheme.pdf](https://www.ofcom.org.uk/_data/assets/pdf_file/0023/123737/Revised-NI-Equality-Scheme.pdf)

## 3. Market developments since our last review

- 3.1 In this section, we discuss market developments that have taken place since the introduction of the existing voluntary commitments. We will also explain the reasons why we consider we need continued protections for voice-only customers.
- 3.2 Our analysis of market developments in this section is particularly based on information requested and received from the main providers. We have requested data on volumes of customers and pricing of voice-only services, and asked about providers' plans for future provision and promotion of voice-only services. We received responses from BT, Post Office, Virgin Media, OVO (previously part of SSE Retail), TalkTalk and Sky.

### The number of voice-only customers continues to decline with BT serving the majority of customers

- 3.3 The data we collected indicates that the total number of voice-only lines decreased from 1.5m in 2017 to 1.2m in 2019. This is a decline of almost 20% over this period. While some of these voice-only customers have switched over to dual play options, the providers reported that the largest source of ceased voice-only services relates to the death of the bill payer.
- 3.4 BT continues to hold by far the majority share of customers, serving over 75% of total voice-only customers in 2019 (an increase from 69% in 2017). Post Office holds the second largest share, although its volumes have declined since 2017. Post Office, together with the other four providers, collectively hold less than 25% of voice-only customers in 2019.<sup>20</sup>
- 3.5 We also observe that, while providers continue to serve a declining legacy base of voice-only customers, and that there is some active marketing of voice-only products to new customers, this is limited in scale. These marketing efforts appear to be focused on trying to convert voice-only customers to either dual-play or triple-play packages:
- BT does not actively market fixed voice-only packages - its website only advertises voice-only packages for customers who also take a broadband service at the same time. Offers for fixed voice-only customers who only want to take a voice service without any broadband (for example, the discounted line rental) are only available through the telephone contact centre.
  - Post Office promotes its voice-only service through its website and in its branches. It has also run a range of voice-only promotions (for example, free weekend calls). However, its focus is on promoting broadband and fibre products, as well as informing existing voice-only customers about opportunities to upgrade to broadband.<sup>21</sup>
  - Virgin Media advertises its voice-only products on its website but focuses on pursuing cross-selling opportunities (with broadband and television).<sup>22</sup>

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<sup>20</sup> Shares estimated from information collected from providers under our formal investigation powers

<sup>21</sup> Post Office s135 response dated 10 November 2020

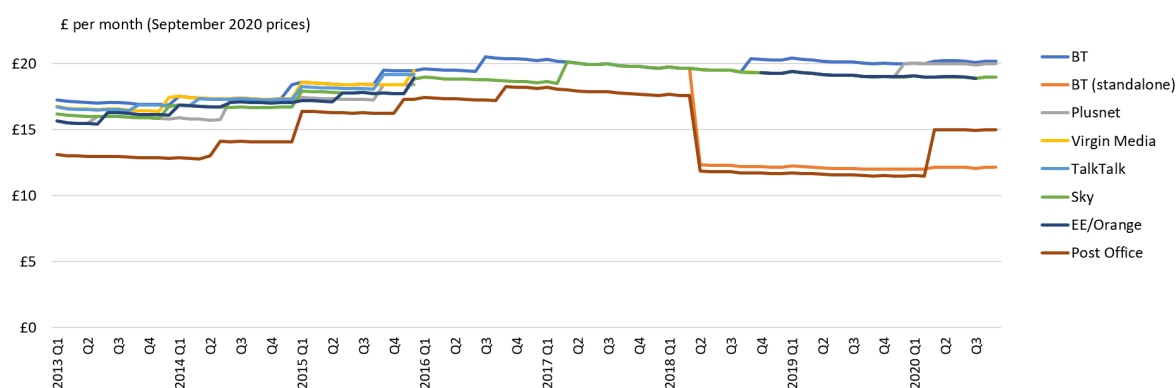
<sup>22</sup> Virgin Media s135 response dated 12 November 2020

- Sky withdrew its voice-only services to new customers in 2019 but continues to serve its legacy base of voice-only customers.<sup>23</sup>
- TalkTalk no longer sells voice-only products to new customers.

### Price trends suggest the majority of voice-only customers benefited from the implementation of the line rental price reduction and that there is little competition in the market for this group of customers

3.6 Our analysis indicates that, very shortly following the initial reduction in the line rental price by BT, Post Office introduced a similar price reduction. Given that the two largest providers reduced their line rental prices, most voice-only customers benefited from lower line rental prices from April 2018. Post Office has since increased its monthly line rental price to £15 (although this is still below the price it charged prior to April 2018).<sup>24</sup>

Figure 3: Residential monthly line rental prices<sup>25</sup>



Source: Ofcom/ Pure Pricing UK Broadband updates Note: Adjusted for CPI, excludes line rental saver pre-payment tariffs

3.7 For the other providers, we observe that a variety of voice-only products are on offer at various price points:

- OVO<sup>26</sup> and Sky offer monthly line rental packages for [£] and £18.99 respectively. However, these are not proactively marketed to new customers and Sky has stopped offering services to new voice-only customers.<sup>27</sup>
- TalkTalk stopped selling voice-only products but offers legacy products at monthly prices ranging from [£], depending on the call package and features.<sup>28</sup>
- Virgin Media offers a range of products to new customers as a voice-only offering. It also offers a Talk Protected product for eligible customers (which includes customers

<sup>23</sup> Sky s135 response dated 24 November 2020

<sup>24</sup> Free calls to Post Office numbers is included as part of the line rental deal.

<sup>25</sup> Prices are those available to new customers and are sourced from information published on the providers' websites, meaning they will exclude offers that are only available through other channels. Some providers no longer offer standalone voice-only services and do not specify a line rental price on their website.

<sup>26</sup> OVO s135 response dated 6 November 2020

<sup>27</sup> Sky s135 response dated 24 November 2020

<sup>28</sup> TalkTalk s135 response dated 12 November 2020

aged 65 and over or with disabilities). Qualifying customers pay £17.99 per month for the line rental and receive a £5 discount on the call package.<sup>29</sup>

- 3.8 Pricing trends information suggests that only Post Office followed the price reduction for the line rental component. This is largely consistent with the limited marketing efforts described above. This suggests that, apart from Post Office, there has been limited overall effort by competitors to compete for new voice-only customers.

## Levels of switching and engagement amongst voice-only customers continue to be low

- 3.9 Switching for this segment of customers is very low, particularly for BT customers. As shown in Figure 4 below, the proportion of BT voice-only customers without bundled broadband that have never switched was 87% in 2019.<sup>30</sup> In comparison, only 33% of customers who purchase broadband with voice-only services from the same supplier have never switched.

**Figure 4: Switching rates for voice-only customers for 2019:**

	Voice-only and broadband with the same supplier	Voice-only without broadband bundled	BT voice-only without broadband bundled
Switched less than 3 years ago	29%	7%	2%
Switched more than 3 years ago	38%	20%	11%
Never switched	33%	73%	87%

Source: Ofcom Switching Tracker 2019

- 3.10 Switching Tracker data also indicates that consumer engagement remains low, with only 4% of respondents to the switching tracker who had a BT voice-only service saying that they were “active” or “browsers”. In contrast, 48% of all customers who purchase broadband with voice services are classified as “active” or “browsers”.<sup>31</sup> Customers who take a voice-only service are less likely to switch providers or engage with their existing provider.

<sup>29</sup> Virgin Media s135 response dated 12 November 2020

<sup>30</sup> This represents a modest increase from 2016 where the comparable figure is 84%

<sup>31</sup> Ofcom’s Engagement Index takes a selection of behavioural and attitudinal factors into account to classify consumers into different segments. “Browsers” are consumers who are currently looking, or planning to look, for a new deal, have initiated some supplier contact, and / or have conducted some competitor evaluation. “Active” consumers are those who have switched supplier in the last year (unless moving home), and / or are undertaking at least two of the following: currently or planning to look for a new deal, initiated some supplier contact, and / or have conducted some competitor evaluation.

## **Voice-only customers tend to be more dependent on their voice-only service, and to be disproportionately older, from lower socioeconomic grades, not working, and more financially vulnerable**

- 3.11 Customers who take a voice-only product are more likely to be dependent on their voice-only service than customers more generally. The Ofcom 2018 Technology Tracker data reveals that 73% of voice-only customers say that they use their voice-only service as their main service to make calls when at home.<sup>32</sup> This statistic has remained relatively consistent over the period since 2015. In contrast, only 29% of all adults say that they use their voice-only service as their main method for making and receiving calls.
- 3.12 Voice-only customers also tend to be disproportionately older, from lower socioeconomic grades, not working, and more financially vulnerable. Our 2019 Technology Tracker survey found that 49% of customers with a voice-only service and no fixed broadband are from a DE socioeconomic grade and over 40% are 75 years or older.<sup>33</sup> Of these customers, 57% are considered to be the most financially vulnerable consumers.<sup>34</sup>
- 3.13 While the overall volumes for voice-only services are declining, in the short to medium term there is still likely to be a significant volume of consumers, many of whom will be in vulnerable circumstances.

## **Changes in underlying technology point to some wholesale cost uncertainty for voice-only services**

- 3.14 Over the next five to ten years, with the migration to VOIP and ensuing copper switch-off, we expect to see substantial changes to the underlying technology which supports voice-only services. These changes introduce a degree of uncertainty over the costs of providing voice-only services.
- 3.15 Wholesale Line Rental (WLR) and Metallic Path Facility (MPF) are the main products used to deliver voice-only services. The charge control on Openreach's WLR product, which is used to deliver PSTN services, was removed in 2018. Until 2021, WLR is still subject to a condition which requires Openreach's pricing to be on fair and reasonable terms.
- 3.16 Beyond 2021, we propose to completely deregulate WLR. However, Openreach has made a voluntary commitment to support the existing WLR and ISDN2/30 customer base (including

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<sup>32</sup> Ofcom Technology Tracker 2018 (note that this question was not asked in the 2019 Technology Tracker survey and therefore an updated figure is not available). Ofcom Technology Tracker 2018 data can be found at <https://www.ofcom.org.uk/research-and-data/data/statistics/stats18>.

<sup>33</sup> DE socio-economic groups, defined by NRS and maintained by the Market Research Society, include semi-skilled and unskilled manual workers, state pensioners, casual and lowest grade workers, and people who are unemployed with state benefits only

<sup>34</sup> In contrast, for all voice-only customers in general, the Technology Tracker shows that 22% are classified as DE socioeconomic grade, only 10% are 75 years or older and 26% are considered to be the most financially vulnerable consumers.



any new circuits provided up to December 2023) on a reasonable basis until December 2025.<sup>35</sup>

- 3.17 Openreach has stated that the PSTN will be switched off by December 2025, and that it will issue a full "stop-sell" of new supply WLR from September 2023.<sup>36</sup> Ofcom has recently consulted on the conditions under which copper regulation could be withdrawn in ultrafast exchanges.<sup>37</sup> PSTN switch-off and withdrawal of copper-based services will result in consumers needing to take IP-based packages to stay connected, which are more likely to include broadband and less likely to offer a voice-only service. We note that at least one major provider does not intend to offer fixed voice-only services.
- 3.18 As we noted in our wholesale fixed telecoms market review consultation<sup>38</sup>, Openreach has introduced a low bandwidth broadband product of 0.5Mbit/s, priced in line with current WLR basic line rental, to support existing voice-only and similar low bandwidth applications within its FTTC and FTTP footprint after PSTN switch-off.<sup>39</sup> However, some providers may choose to develop products which use mobile or fixed wireless access technologies to provide voice-only services. For example, BT is considering alternative ways to serve these customers through wireless technologies.

## We need to ensure continued price protection for customers of voice-only services

- 3.19 Our analysis indicates that customers who take a voice-only service are disproportionately more likely to be in vulnerable circumstances and that these customers are much less likely to switch provider or engage with the market to shop around for a better deal. While the overall number of fixed voice-only customers is reducing, BT's share of customers has increased over the current commitment period, and is likely to continue to increase as some providers which have previously offered a voice-only service stop supplying the product. We expect this to result in decreased competition and choice for consumers. In this context, it is likely that prices could rise disproportionately for this group of customers. We therefore continue to believe that we need price protection for customers of voice-only services.

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<sup>35</sup> [Consultation: Promoting competition and investment in fibre networks: Wholesale Fixed Telecoms Market Review 2021-26, Volume 2: Market assessment \(January 2020\), Section 1 pp.9-10](#)

<sup>36</sup> See Openreach website: <https://www.openreach.co.uk/orpg/home/products/wlrwithdrawal/wlrwithdrawal.do>

<sup>37</sup> [Consultation: Consultation: Copper retirement – conditions under which copper regulation could be completely withdrawn in ultrafast exchanges, Supplementary consultation to the Wholesale Fixed Telecoms Market Review \(October 2020\)](#)

<sup>38</sup> [Consultation: Promoting competition and investment in fibre networks: Wholesale Fixed Telecoms Market Review 2021-26 \(January 2020\)](#)

<sup>39</sup> See Openreach website: <https://www.openreach.co.uk/orpg/home/updates/briefings/super-fastfibreaccessbriefings/super-fastfibreaccessbriefingsarticles/nga00920.do>

## Protecting voice-only landline customers

- 3.20 BT has proposed a further set of voluntary commitments which we consider will provide appropriate price protection and certainty for the vast majority of voice-only customers, particularly during this period of technological change.
- 3.21 We discuss in Section 4 that we propose to accept these new commitments, which would come into force on 1 April 2021.

## 4. Proposed protections for customers of voice-only services

- 4.1 The prices which customers pay for their voice-only service have been protected since 1 April 2018. The existing voluntary commitments expire on 31 March 2021 and BT has made an offer of further voluntary commitments which we have carefully considered.
- 4.2 In this section, we explain the further commitments BT has offered and our reasons for proposing to accept these commitments. We will continue to monitor market developments and will review whether BT's proposed commitments continue to meet the needs of voice-only customers.

### Commitments offered by BT

- 4.3 The commitments BT has offered are:
- a) **Continue with a CPI+0% control on a basket of rental and call products consumed by voice-only customers.** In line with existing commitments, we consider a limit of prices increasing in real terms as a proportionate, clear and timely way to continue to protect consumers. BT has also committed to an annual CPI+0% limit on prices for its Home Phone Saver product and a safeguard cap of CPI+2.5% for its line rental product
  - b) **Commitment duration of five years.** We consider five years is an appropriate period of time for the duration of these commitments. This will provide certainty for customers for the next five years and allow us to reassess the right protections once the Public Switched Telephone Network (PSTN) switch-off has taken place, which is scheduled to be completed by December 2025
  - c) **Commitments apply to all products and services taken by voice-only customers, regardless of the technology used to deliver the service.** This will ensure that consumers are protected at the retail level, irrespective of the technology used to deliver the service. We consider this to be particularly important as consumers are migrated to different technologies as a result of PSTN switch-off
  - d) **Commitments also apply to any products or services introduced throughout the duration of the agreement.** This will ensure these commitments extend to any new service that is introduced and offered to voice-only customers during the commitment period
  - e) **BT to provide information to Ofcom on its compliance with the commitments on an annual basis.** Compliance is an important part of monitoring voluntary commitments. BT will provide Ofcom with an externally audited annual compliance statement. It will also publish an annual compliance statement on its website.

## Our assessment of the commitments offered by BT

### BT will continue with CPI+0% control on a basket of rental and call products, a commitment of a CPI+0% control on its Home Phone Saver product and a safeguard cap of 2.5% of the price of line rental

- 4.4 As a result of BT's current commitments, voice-only customers have benefited from an initial £7 price reduction in their monthly line rental and have enjoyed below inflation pricing of their fixed telephony services.
- 4.5 We believe a new commitment to cap price rises for BT's voice-only products to CPI+0%, and a safeguard cap of 2.5% of the price of line rental, will continue to ensure that voice-only customers, many of whom may be vulnerable, do not face disproportionate price increases as the market enters a period of uncertainty and change.
- 4.6 We also consider that customers who take the Home Phone Saver product, which is a voice-only service, should continue to be protected. BT has also committed to a further annual CPI+0% control on its Home Phone Saver product.
- 4.7 We have sought to illustrate the potential value to consumers from the proposed commitments.<sup>40</sup> We do this by comparing permitted prices under the new commitments to what may happen absent the new commitments (the counterfactual).<sup>41</sup> We present two scenarios for the counterfactual to provide an indicative range for customer benefits:
- **A gradual above inflation scenario.** Absent the commitments, it seems likely that BT's prices would increase in real terms. Prior to the 2017 consultation, BT's line rental charges increased by around 4% per annum in real terms.<sup>42</sup> Moreover, for its mass-market offerings (including voice-only services), BT has stated that each year it will adjust the amount customers pay by CPI plus 3.9%.<sup>43</sup> For the first counterfactual scenario, we therefore assume that prices increase by 4% per annum in real terms.
  - **A steeper above inflation scenario.** In this scenario, we assume a reversal of the line rental reduction customers have benefitted from. Line rental prices were reduced by £7/month in April 2018 and we consider it is possible that prices could eventually rise to the level preceding that reduction, absent new commitments. If this were to happen, the line rental price for voice-only customers could rise to the same level that

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<sup>40</sup> The indicative estimations cover Home Phone Saver customers as well as voice-only customers who purchase the discounted line rental.

<sup>41</sup> As a simplifying assumption, the estimations do not explicitly calculate the value for call products. However, broadly speaking, if call prices were to rise by more than inflation, line rental would not because of the CPI+0% basket cap. Conversely, if call prices rise by less than inflation, line rental could rise by more than inflation but by no more than CPI+2.5% because of the sub-cap on line rental.

<sup>42</sup> Calculated over the period 2013 to 2017, although line rental had been increasing above inflation from around 2010

<sup>43</sup> See BT website at <https://www.bt.com/help/broadband/annual-price-changes-and-cpi>

BT currently charges to other customers (around £20).<sup>44</sup> We assume this happens over the next five years (the commitment period).<sup>45</sup>

- 4.8 We apply these counterfactual scenarios to BT's customer base over the commitment period.<sup>46</sup> On this basis, an indicative range for the estimated benefit for customers would be around £6m to £14m in the first year and benefits would increase each year of the commitment period. On average over the five year period, customer benefits in these scenarios could be between £17m to £34m on an annualised basis.<sup>47</sup>
- 4.9 The indicative range for customer benefits reflects the estimated benefits to BT's customers. In so far as the commitments act to limit how far other providers might change their own prices, customers of other providers may also benefit.

### **BT has offered commitments for a duration of five years**

- 4.10 We will review these commitments in five years' time, by March 2026. This duration will provide voice-only customers price certainty for the next five years, but it will also allow us to reassess the right protections going forward as we get closer to PSTN switch-off. At this point, there will be more clarity over technology, on-going wholesale costs and the providers that continue to serve these customers.

### **The commitments will be technology neutral and apply to any products or services introduced throughout the duration of the agreement**

- 4.11 BT has offered for the commitments to be technology neutral and apply to any existing or new voice-service taken by voice-only customers, regardless of the underlying technology used to deliver that service.
- 4.12 In Section 3, we explained the likely wholesale cost uncertainty as the industry moves from WLR and copper-based products. The retirement of legacy products and migration of consumers to new products might introduce further price complexity for providers. Price protection at the retail level for voice-only customers will be particularly important as providers migrate customers to different technologies as a result of PSTN switch-off.

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<sup>44</sup> BT currently charges its pay-as-you-go customers £20.20 a month for the line rental, whereas voice-only customers currently pay £12.14 a month.

<sup>45</sup> This increase is only applied to the customers who use the discounted line offering. For Home Phone Saver customers, who did not receive a price reduction, the assumption is that there would be a 4% per annum real increase for these customers under both counterfactuals.

<sup>46</sup> This also requires assumptions to be made regarding customer numbers in future years. In both scenarios, we assume that volumes decrease by [X] per annum for line rental customers and by [X] for Home Phone Saver customers. These assumptions are informed by BT's own forecasts and our own judgment based on recent trends because BT's forecasts didn't cover the whole period in question or the entire customer base.

<sup>47</sup> The average is calculated on an annualised basis which recognises that a future £1 of benefit is worth less than £1 of benefit today, by applying the social discount rate of 3.5% (real). This is the Social Rate of Time Preference as specified in the HM Treasury [Green Book \(Central Government Guidance on Appraisal and Evaluation\)](#)

## **BT has offered to provide annual audited information to Ofcom on its compliance with the commitments and to publish a statement on its website**

- 4.13 The provision of regular information allows us to monitor compliance and we consider that it is an integral part of accepting this new set of voluntary commitments from BT. External review will provide further assurance but we will consider whether an external review remains appropriate and proportionate three years into the new commitment period.
- 4.14 We also welcome BT's offer to improve transparency to stakeholders on how it is meeting the terms of its commitments by publishing an annual compliance statement on its website. If we were to identify any concerns with compliance, we would consider the most appropriate course of action. Accepting these voluntary commitments would not prevent us from reviewing the market or considering regulatory intervention at a later date.

## **We propose to accept the commitments offered by BT**

- 4.15 In light of our assessment, we propose to accept the commitments offered by BT. In our view, they would be sufficient to address our concerns, whilst providing price certainty, and effective and proportionate protections for voice-only customers. Whilst the commitments would only apply to BT, its large share of the voice-only customer market means these protections will apply to the majority of voice-only customers. We also consider that the commitments represent the least burdensome regulatory intervention

Q1. Do you agree with our overall approach to accept BT's offer of further commitments to ensure on-going protection of the prices paid by voice-only customers?

# A1. Responding to this consultation

## How to respond

- A1.1 Ofcom would like to receive views and comments on the issues raised in this document, by 5pm on 21 January 2021.
- A1.2 You can download a response form from <https://www.ofcom.org.uk/consultations-and-statements/category-2/protecting-voice-only-landline-customers>. You can return this by email to the address provided in the response form.
- A1.3 If your response is a large file, or has supporting charts, tables or other data, please email it to [voiceonly2021@ofcom.org.uk](mailto:voiceonly2021@ofcom.org.uk), as an attachment in Microsoft Word format, together with the [cover sheet](#). This email address is for this consultation only, and will not be valid after 21 January 2021.
- A1.4 Responses may alternatively be posted to the address below, marked with the title of the consultation:
- Retail Voice-only Customers Consultation Team c/o Cat Kelly  
Ofcom  
Riverside House  
2A Southwark Bridge Road  
London SE1 9HA
- A1.5 We welcome responses in formats other than print, for example an audio recording or a British Sign Language video. To respond in BSL:
- Send us a recording of you signing your response. This should be no longer than 5 minutes. Suitable file formats are DVDs, wmv or QuickTime files. Or
  - Upload a video of you signing your response directly to YouTube (or another hosting site) and send us the link.
- A1.6 We will publish a transcript of any audio or video responses we receive (unless your response is confidential).
- A1.7 We do not need a paper copy of your response as well as an electronic version. We will acknowledge receipt if your response is submitted via the online web form, but not otherwise.
- A1.8 You do not have to answer all the questions in the consultation if you do not have a view; a short response on just one point is fine. We also welcome joint responses.
- A1.9 It would be helpful if your response could include direct answers to the questions asked in the consultation document. The questions are listed at Annex 4. It would also help if you could explain why you hold your views, and what you think the effect of Ofcom's proposals would be.

- A1.10 If you want to discuss the issues and questions raised in this consultation, please contact [voiceonly2021@ofcom.org.uk](mailto:voiceonly2021@ofcom.org.uk).

## Confidentiality

- A1.11 Consultations are more effective if we publish the responses before the consultation period closes. In particular, this can help people and organisations with limited resources or familiarity with the issues to respond in a more informed way. So, in the interests of transparency and good regulatory practice, and because we believe it is important that everyone who is interested in an issue can see other respondents' views, we usually publish all responses on [the Ofcom website](#) as soon as we receive them.
- A1.12 If you think your response should be kept confidential, please specify which part(s) this applies to, and explain why. Please send any confidential sections as a separate annex. If you want your name, address, other contact details or job title to remain confidential, please provide them only in the cover sheet, so that we don't have to edit your response.
- A1.13 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and try to respect it. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.
- A1.14 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's intellectual property rights are explained further in our [Terms of Use](#).

## Next steps

- A1.15 Following this consultation period, Ofcom plans to publish a statement in March 2021.
- A1.16 If you wish, you can [register to receive mail updates](#) alerting you to new Ofcom publications.



## Ofcom's consultation processes

- A1.17 Ofcom aims to make responding to a consultation as easy as possible. For more information, please see our consultation principles in Annex 3.
- A1.18 If you have any comments or suggestions on how we manage our consultations, please email us at [consult@ofcom.org.uk](mailto:consult@ofcom.org.uk). We particularly welcome ideas on how Ofcom could more effectively seek the views of groups or individuals, such as small businesses and residential consumers, who are less likely to give their opinions through a formal consultation.
- A1.19 If you would like to discuss these issues, or Ofcom's consultation processes more generally, please contact the corporation secretary:

Corporation Secretary  
Ofcom  
Riverside House  
2a Southwark Bridge Road  
London SE1 9HA  
Email: [corporationsecretary@ofcom.org.uk](mailto:corporationsecretary@ofcom.org.uk)

## A2. Ofcom's consultation principles

### **Ofcom has seven principles that it follows for every public written consultation:**

#### **Before the consultation**

- A2.1 Wherever possible, we will hold informal talks with people and organisations before announcing a big consultation, to find out whether we are thinking along the right lines. If we do not have enough time to do this, we will hold an open meeting to explain our proposals, shortly after announcing the consultation.

#### **During the consultation**

- A2.2 We will be clear about whom we are consulting, why, on what questions and for how long.
- A2.3 We will make the consultation document as short and simple as possible, with a summary of no more than two pages. We will try to make it as easy as possible for people to give us a written response. If the consultation is complicated, we may provide a short Plain English / Cymraeg Clir guide, to help smaller organisations or individuals who would not otherwise be able to spare the time to share their views.
- A2.4 We will consult for up to ten weeks, depending on the potential impact of our proposals.
- A2.5 A person within Ofcom will be in charge of making sure we follow our own guidelines and aim to reach the largest possible number of people and organisations who may be interested in the outcome of our decisions. Ofcom's Consultation Champion is the main person to contact if you have views on the way we run our consultations.
- A2.6 If we are not able to follow any of these seven principles, we will explain why.

#### **After the consultation**

- A2.7 We think it is important that everyone who is interested in an issue can see other people's views, so we usually publish all the responses on our website as soon as we receive them. After the consultation we will make our decisions and publish a statement explaining what we are going to do, and why, showing how respondents' views helped to shape these decisions.

## A3. Consultation coversheet

### BASIC DETAILS

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

### CONFIDENTIALITY

Please tick below what part of your response you consider is confidential, giving your reasons why

Nothing

Name/contact details/job title

Whole response

Organisation

Part of the response

If there is no separate annex, which parts? \_\_\_\_\_

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If you want part of your response, your name or your organisation not to be published, can Ofcom still publish a reference to the contents of your response (including, for any confidential parts, a general summary that does not disclose the specific information or enable you to be identified)?

### DECLARATION

I confirm that the correspondence supplied with this cover sheet is a formal consultation response that Ofcom can publish. However, in supplying this response, I understand that Ofcom may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations. If I have sent my response by email, Ofcom can disregard any standard e-mail text about not disclosing email contents and attachments.

Ofcom seeks to publish responses on receipt. If your response is non-confidential (in whole or in part), and you would prefer us to publish your response only once the consultation has ended, please tick here.

Name

Signed (if hard copy)

## A4. Consultation questions

A4.1 Ofcom proposes to accept voluntary commitments offered by BT to protect fixed voice-only customers.

Q1. Do you agree with our overall approach to accept BT's offer of further commitments to ensure on-going protection of the prices paid by voice-only customers?

## A5. Commitments offered by BT

A5.1 Full details of the commitments that BT has offered are set out at [Annex 5](#)