
Helping consumers to engage in communications markets

Annexes 6 – 9 of consultation on end-of-contract and
out-of-contract notifications

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CONSULTATION:

Publication Date: 31 July 2018

Closing Date for Responses: 9 October 2018

Contents

Annex

A6. Impact Assessment for regulating end-of-contract and out-of-contract notifications for residential consumers	3
A7. Data and methodology used to assess consumer outcomes	33
A8. End-of-contract and out-of-contract notification process	37
A9. Notification of proposed new general condition and modifications to the General Conditions under section 48A(3) of the Act	40

A6. Impact Assessment for regulating end-of-contract and out-of-contract notifications for residential consumers

Introduction

- A6.1 In this Annex we consider the likely costs and benefits associated with the proposal to require providers to send end-of-contract and out-of-contract notifications to residential consumers. This analysis informs our assessment of the proportionality of the proposed remedy, which is addressed in Section 5.
- A6.2 The remainder of this Annex is structured as follows:
- First, we describe the costs associated with the proposed end-of-contract and out-of-contract notifications. Based on an indicative analysis, our assessment is that the costs would be relatively limited.
 - Second, we describe the potential benefits associated with the proposed end-of-contract and out-of-contract notifications. Using data collected as part of this consultation, we illustrate the likely extent of these benefits.
 - Third, we illustrate that only a relatively limited number of consumers would have to avoid being out-of-contract to ensure that the benefits of our proposals would exceed the costs.
- A6.3 Overall, our assessment is that the requirement on providers to send end-of-contract and out-of-contract notifications would result in a net benefit to residential consumers.

Costs

- A6.4 In this section we identify the costs that would be incurred by providers following our proposal to require end-of-contract notifications and out-of-contract notifications to be sent to their residential customers. These costs may ultimately be reflected in prices, and so be passed onto consumers.

Description of costs

- A6.5 We describe our understanding of the costs that providers would have to incur to introduce our proposed end-of-contract and out-of-contract notifications. It is based on our discussions with several providers, and information provided following these discussions. We discuss each of the three categories of cost (i) one-off implementation costs; (ii) ongoing costs of end-of-contract notifications; and (iii) one-off costs of out-of-contract notifications.

Implementation costs

A6.6 As set out in Annex 8, the implementation costs of end-of-contract and out-of-contract notifications would include:

- any system development required to introduce the functionality used to prepare and deliver end-of-contract and out-of-contract notifications;
- integrating these functions with existing systems; and
- staff training.

A6.7 We recognise that these costs may vary according to the characteristics of a given provider. In particular, we understand that implementation costs would tend to be lower for providers:

- with existing processes to extract the relevant information and communicate with customers. That is, providers whose existing systems have greater levels of automation, in terms of the preparation and distribution of end-of-contract and out-of-contract notifications, would incur lower implementation costs. We note that many of the providers we spoke to already have processes in place to communicate with their customers as they near the end of their minimum contract period;
- who choose to limit the extent to which they would deploy further automation into their systems, and instead decide to use manual processes to extract information relevant to the end-of-contract and out-of-contract notifications. While implementation costs would be lower for these providers, we would expect them to incur higher ongoing costs;
- with less complex systems (for example, providers who do not have multiple systems running in parallel); and
- who can rely on changes made to systems of wholesale suppliers (for example, smaller fixed operators and mobile virtual network operators – MVNOs).

A6.8 We also recognise that, in general, more complex end-of-contract and out-of-contract notifications (for example, with more personalised information) would tend to need more systems development, and so would generate higher implementation costs for providers.

Ongoing cost of end-of-contract notifications

A6.9 We have proposed that the notifications would be sent via a durable medium, such as email, SMS or letter.¹ As mentioned above, there would be some trade-off in costs between the degree of automation providers build into their systems, and the ongoing staff costs associated with generating and distributing end-of-contract notifications. More

¹ Different formats will require different types of messages (for example, due to SMS character limits).

automated systems would imply lower ongoing costs associated with the generation and distribution of end-of-contract notifications.

A6.10 With a high level of automation, the cost of generating and distributing emails and SMSs are likely to be negligible, but there would be a cost for letters. The key drivers of the cost of letters would be:

- the number of in-contract customers (i.e. those who would be sent end-of-contract notifications);
- the contract lengths (that is, how long before a provider will need to send a given customer an end-of-contract notification);²
- the number of end-of-contract notifications sent via post; and
- the cost per letter.

A6.11 We also recognise that end-of-contract notifications could increase consumer engagement, and so increase customer service costs. This could occur via:

- a reduction in the number of consumers who go out-of-contract, and therefore an increase in the number of in-contract customers. This would increase the ongoing cost of end-of-contract notifications, as more notifications would have to be sent.
- an increased incidence of customers contacting their provider, in response to receiving the end-of-contract notifications. This could increase customer service costs, as providers may incur additional staff costs to address customer queries.³

One-off out-of-contract notifications

A6.12 We have also proposed that out-of-contract customers would be sent an out-of-contract notification, where such communication would be one-off. The cost per notification would be the same as the ongoing cost per end-of-contract notification. Similarly, we may expect that out-of-contract notifications could result in a one-off increase in customer service costs. However, the overall cost would be driven by the number of relevant out-of-contract, rather than in-contract, customers.

Methodology

A6.13 In this section we set out the methodology and assumptions used to generate our quantitative estimates of the cost associated with our proposals.

A6.14 We have not carried out a detailed cost modelling exercise, but rather have sought to develop indicative cost estimates. We believe these estimates are useful, as they (i)

² In order to determine the net present value of sending end-of-contract notifications, we have to determine how many notifications will have to be sent during the period over which we analyse costs. The number of notifications that have to be sent over a given period will depend on the typical length of a contract.

³ Note, we have not captured these costs within our quantitative estimates.

suggest the order of magnitude of costs; and (ii) permit a reasonable comparison with the potential benefits.

A6.15 Our estimates are, where possible, based on actual data from major providers. In addition, we have made simplifying assumptions due to gaps in the evidence available to us.⁴ In this context, we note the caveats applying to our analysis include:

- In general, some of our assumptions have a significant influence on our cost estimate (e.g. the costs for smaller operators, and the cost per letter), and could be materially different in practice. In light of this, we report a range for the cost estimates, showing how varying some assumptions can impact our estimates.
- Regarding implementation costs, we note that some of the development activities needed for end-of-contract notifications may occur in any case due to our mobile switching reforms. It is unclear to what extent some providers' costs estimates have taken account of this. To the extent such duplication is relevant and not taken into account, the indicative results provided here would overstate the implementation costs of our proposals for mobile providers. More generally, if the required systems changes are built into wider system changes by providers, then the incremental cost of our proposals could be lower again.
- Regarding ongoing costs, we have not factored in the cost of a potential increase in the requirements on providers' customer services. In this regard, our estimates could be an understatement of overall ongoing costs.
- Many providers we spoke to already have processes in place to market to customers through emails, SMS and letters as they near the end of their minimum contract periods. In general, these [X] require some manual input from staff and other one-off costs. Although not quantified in our estimates, the system changes introduced to accommodate end-of-contract notifications could reduce the cost of these marketing processes by allowing greater automation of the processes required to (i) identify those consumers who are near the end of their minimum contract period; (ii) extracting customer specific information from databases, and aggregating this information into a notification; and / or (iii) printing and sending the notifications. Costs could also be reduced if end-of-contract notifications displace any of these existing communications from providers to customers.

A6.16 Overall, although our estimates are only indicative, we do not have specific reasons for thinking that more refined estimates would overall result in higher or lower estimated costs.

⁴ We use information from (i) a series of discussions with providers; (ii) information provided to us following these discussions; and (iii) information formally requested to assess providers' existing practices (i.e. the data from providers used in Section 3 and Annex 7); and (iv) our quantitative market research.

Time horizon

A6.17 We have estimated the impact of our reforms over a 10-year time horizon.⁵ Total industry cost is comprised of one-off implementation costs, one-off distribution costs for out-of-contract notifications, and 10 years of ongoing distribution costs for end-of-contract notifications. We assume that the number of providers and number of customers remains constant, as we have no information on how they may change over the 10-year time horizon.

Discount methodology

A6.18 Ongoing and one-off notification costs are discounted using a social time preference rate (STPR) of 3.5%,⁶ and we apply the Spackman Approach to discount providers' implementation costs.⁷

A6.19 We have chosen to discount implementation costs using the Spackman approach, as:

- our proposals would involve firms who are required to finance an investment to implement these changes; and
- benefits accrue to customers and the wider public.

A6.20 Rather than simply discounting all costs at the STPR, this approach involves converting the investment required to implement our proposals into a stream of annual financing costs over a 10-year period. In our approach, this financing cost is based on the weighted average cost of capital (WACC).⁸ We then discount this stream of costs at the STPR. Our

⁵ A 10-year horizon reflects greater uncertainty about the potential costs and benefits beyond that time, and the possibility that system lifetimes may not extend beyond 10 years. This is in line with our approach for the 2017 Mobile Switching Statement and our 2017 decision on switching landline, broadband and/or pay TV between different platforms (<https://www.ofcom.org.uk/consultations-and-statements/category-1/making-switching-easier>), where we also adopted 10-year periods for calculating the impact of our reforms. We also note the HMT Green Book (paragraph 5.14, <https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>) suggests, as a guideline, that a 10-year horizon may be suitable for many interventions.

⁶ This is the social time preference rate adopted in the HMT Green Book.

⁷ For further discussion of the Spackman Approach see <https://www.ofcom.org.uk/consultations-and-statements/category-3/discounting-for-cbas>.

⁸ We use a 7% pre-tax real WACC for all providers. This is derived from the 2018 Mobile Call Termination Statement (Section 5, <https://www.ofcom.org.uk/consultations-and-statements/category-1/mobile-call-termination-market-review>). We use this WACC for all operators as the systematic risk of the project could be expected to be the same, or at least largely similar, for mobile and fixed (landline, broadband, mobile and pay TV) operators. We note in this respect that paragraph A10.18 of the Mobile Call Termination Statement said there is no evidence of a statistically significant difference in the asset betas (i.e. systematic risks) between mobile and fixed telecoms operators. We also note that a candidate WACC for fixed operators would be very similar in any case. Converting the pre-tax WACC for "Other UK Telecoms" from Annex 20 of the 2018 Wholesale Access Review (<https://www.ofcom.org.uk/consultations-and-statements/category-1/wholesale-local-access-market-review>) to real terms gives a pre-tax real (CPI-adjusted) WACC of 6.8%.

results are not sensitive to adopting this approach, as a large proportion of the costs are ongoing not one-off (as discussed in more detail below).

Calculation of implementation costs

- A6.21 We detail below the steps we have taken in our analysis of implementation costs, for which we report a “high” and a “low” estimate.
- A6.22 First, we have separated providers of mobile services (including mobile handset and SIM-only) and fixed services (including landline, broadband and pay TV) into tiers based on their size, and the likely scale of their implementation costs.⁹
- For mobile, the highest cost tier is comprised of the four mobile network operators (MNOs), BT/EE, H3G, O2 and Vodafone. BT, TalkTalk, Sky, Virgin Media and [X] comprise the highest cost tier of fixed operators, with the latter being included in this tier based on [X].
 - For mobile, the lower cost tiers are comprised of large MVNOs, medium MVNOs, small MVNOs and mobile virtual network enablers/aggregators (MVNE/As). For fixed, the lower cost tiers are comprised of smaller providers with 10,000+ lines, providers with fewer than 10,000 lines and third-party intermediaries.
- A6.23 We consider that the number of providers in each tier are the same as those used in the 2017 Mobile Switching Statement and our 2017 Decision on switching landline, broadband and/or pay TV between different platforms, and are set out in Table 1 and Table 2.
- A6.24 Second, we apply an estimated implementation cost for each provider depending on the tier they belong to.
- A6.25 In doing so, we generate a lower and higher estimate for implementation costs, where the latter reflects more detailed cost information from two large fixed providers. We have developed a lower estimate which does not reflect the cost estimates from these fixed providers because (i) we have some questions about the relevance of some aspects of these more detailed estimates; and (ii) to show the sensitivity of the calculations to different assumptions.
- A6.26 For our lower indicative cost estimate, we have assumed a benchmark implementation cost per provider of £[X] for the fixed and mobile providers in the highest cost tiers. This is based on an estimate supplied by a provider, specifically [X] for making adjustments to a single customer relationship management (CRM) system/process. This estimate is in line with the magnitude of less precise and less detailed estimates supplied by some other providers.¹⁰ We have assumed a single benchmark applies to both fixed and mobile, in line with our understanding that the same type of changes would be required for all providers

⁹ We used a similar tiering approach in the 2017 Mobile Switching Statement and 2017 Decision on switching landline, broadband and/or pay TV between different platforms.

¹⁰ This is informed by [X].

in the affected sectors. We have made the following adjustments to this benchmark for other tiers of providers that are also part of our indicative cost calculation:

- For some large mobile providers, we have made deductions from the benchmark to reflect information disclosed by providers on (i) the extent of processes already in place to extract the relevant information; (ii) the degree of automation in sending communications; and (iii) [redacted].¹¹
- We apply a discount from the benchmark for smaller operators in lower cost tiers, consistent with our approach in the estimates accompanying the 2017 Mobile Switching Statement and our 2017 Decision on switching, landline, broadband and/or pay TV between different platforms. The specific discount we have applied is based on cost categories from the mobile switching model, and set out in Table 1 and Table 2.¹²

A6.27 For our higher indicative cost estimate, we use more detailed cost information from two large fixed providers. We replace the implementation cost for these providers as implied by our adjusted benchmark approach (described above) with the estimates they have self-reported:

- [redacted] estimate a one-off development cost of £[redacted] but say this excludes [redacted]. It is not clear what this un-costed element would amount to if quantified. In order to quantify this, we have added an additional £[redacted] (i.e. the benchmark estimate) to the reported £[redacted] development cost. However, it is unclear how accurate this adjustment may be.
- [redacted] reported that their implementation cost would be in the [redacted], which we have taken to be £[redacted] for the purposes of quantification. We note this estimate is significantly higher than the estimates supplied by other providers, and it is unclear to us why the implementation cost would be so much higher for [redacted].

A6.28 Third, we sum the implementation costs within and across tiers to calculate overall implementation costs.

¹¹ As such, we reduce implementation costs for [redacted].

¹² In general, this discount is motivated by differences in the complexity of providers' systems and the amount of work that we expect would be required. These cost categories are estimated set-up costs for functionality to develop real-time early termination charge / credit balance, functionality to deliver PAC and early termination charge / credit balance to consumer via SMS and to establish Small MVNO Account Management Portal for residential and business costs for a typical MNO. These categories were chosen as they are similar to the type of changes that may be required for end-of-contract notifications. The actual costs categories used in modelling for the switching landline, broadband and/or pay TV between different platforms project are less relevant to the changes we are proposing here, so we use the same discounts for both fixed and mobile providers. The Mobile Switching model is available at https://www.ofcom.org.uk/_data/assets/excel_doc/0029/108992/Auto-switch-gross-costs-model.xlsx.

Table 1: Mobile providers in Lower Cost Tiers

Mobile tiers	Number	Implementation costs as percentage of benchmark
Large MVNOs	11	53%
Medium MVNOs	6	41%
Small MVNOs	69	1%
MVNEs/A	8	56%

Table 2: Fixed / Pay TV providers in Lower Cost Tiers

Fixed/ Pay TV tiers	Number	Implementation costs as percentage of benchmark
10,000+ lines	10	53%
100-10,000 lines	50	1%
Third party integrators	5	56%

Calculation of the ongoing cost of end-of-contract notifications

A6.29 There are a number of factors which determine the ongoing costs of sending end-of-contract notifications. We generate a lower and higher indicative estimate for these ongoing costs, in order to assess the sensitivity of our analysis to the assumptions we make regarding the value of these factors.

A6.30 First, we recognise that the ongoing cost will depend on the medium used to distribute end-of-contract notifications to customers.

- We assume that there is no material cost associated with sending end-of-contract notifications via SMS or email. This is based on providers generally reporting low to negligible cost of sending SMSs and emails to customers.
- We recognise that providers would incur a material cost for letter-based end-of-contract notifications. Prices for business mail reported in the Ofcom annual monitoring update on the postal market¹³ and other online price information¹⁴ suggest the cost of mailing a letter would be below 30p. In meetings providers suggested a cost per letter ranging from 25p, [£], to £1 ([£]). These higher estimates include project, printing and production costs. [£] and [£]. We expect the average cost per letter for

¹³ For example, Figure 5.4 of the 2016-17 Annual monitoring update on the postal market report (https://www.ofcom.org.uk/postal-services/information-for-the-postal-industry/monitoring_reports) lists Royal mail sorted economy class machine readable business mail to cost about 24p in January 2017. This is largely consistent with price lists from March 2018 (<https://www.royalmail.com/sites/default/files/Business-Mail-rate-card-March-2018-33822111.pdf>, see for example Table 1, page 11 (accessed 6 June 2018)) and information from other websites (for example: <https://www.thedirectmailcompany.co.uk/bulk-postage-rates/>, accessed on 6 June 2018).

¹⁴ Figure 5.4 of the 2016-17 report, available at https://www.ofcom.org.uk/postal-services/information-for-the-postal-industry/monitoring_reports.

end-of-contract notifications would be lower than that compared to any previous campaigns from which these provider cost estimates may have been derived. This is because there would be a larger volume of end-of-contract notifications over which to spread any one-off costs. Automation of processes and other efficiencies from an ongoing mailing process could contribute further to lowering average costs. More generally, if postage costs are around 30p, then we are sceptical that other costs would be so large as to inflate the cost per letter to £1, and we consider a cost per letter of 40p - 50p is more likely. We use 40p per letter for our lower estimate of ongoing costs, and 50p for the higher estimate.¹⁵

A6.31 Second, we note that the ongoing cost of sending end-of-contract notifications will depend on the number of customers who are in-contract.

- We estimate the number of in-contract *residential* customers as set out in Annex 7.
- We recognise that end-of-contract notifications would reduce the number of consumers who go out-of-contract, which in turn would increase the number of end-of-contract notifications providers are required to send. We therefore multiply the number of customers who are currently in-contract by an uplift factor to account for this impact. We do not have any direct quantitative evidence of the scale of this effect, but for the purposes of generating a quantitative cost estimate we assume a 2% uplift in the number of in-contract customers for our lower estimate of ongoing costs, and a 10% uplift in our higher estimate.

A6.32 Third, as the cost of an end-of-contract notification varies according to the medium in which it is sent, we need to establish what proportion of end-of-contract notifications will have to be sent through each medium.

- We assume that 20% of broadband and pay TV customers are notified via post, based on information provided by TalkTalk at our meeting on their customers' marketing preferences.¹⁶
- We assume that all mobile customers are contacted via SMS.

A6.33 Fourth, we arrive at an estimate of the number of notifications to be sent per year, by dividing the estimated number of in-contract customers by an estimate of the average contract length. This is to recognise that longer contract lengths would mean that fewer end-of-contract notifications are required per year. Based on information regarding the share of 12, 18 and 24-month contracts among new post-pay mobile customers, we estimate that the average contract length for post-pay mobile is about 18 months.¹⁷ Absent other information on contract lengths, and recognising that contract lengths for mobile,

¹⁵ We note this range is in line with [X] and above the 25p estimate from [X].

¹⁶ We have no equivalent information for standalone landline customers, but due to their lower rate of internet and mobile usage, we have assumed 75% are contacted via post. We similarly have no information on standalone broadband customers, and so assume the share of standalone broadband customers receiving a notification by post is the same as the share among dual and triple-play customers.

¹⁷ Data from GFK.

fixed landline, broadband and pay TV could be somewhat similar, we assume this 18-month average contract length applies for all customers.

- A6.34 Finally, we arrive at our estimate of ongoing costs by multiplying through the factors we have identified above. That is, we construct the number of messages to be sent by medium, by multiplying the total number of messages to be sent by the proportion accounted for by each medium. We then construct the aggregate ongoing cost by medium, by multiplying the number of messages to be sent for a given medium with the cost per message for that medium. We aggregate across the ongoing costs for each medium to arrive at our total ongoing cost estimate.
- A6.35 As with our indicative estimate of implementation costs, we include in our higher estimate of ongoing costs additional information received from one provider. That is, we replace [X] estimate of ongoing costs as implied by the approach in our lower estimate, with an adjusted version of an estimate supplied by that provider [X] of their own ongoing cost per year.¹⁸

Calculation of the one-off cost of out-of-contract notifications

- A6.36 We replicate the approach taken for end-of-contract notifications in order to estimate the one-off cost of sending out-of-contract notifications. The only differences are:
- The total number of messages to be sent is equal to the number of residential consumers who are currently out-of-contract.¹⁹ Our estimate of the number of customers who are out-of-contract is set out in Annex 7.
 - All out-of-contract messages would have to be sent at the start of the implementation period. That is, providers would incur a one-off cost during the first year of our 10-year window of analysis.

¹⁸ We have made adjustments to the estimates provided by the provider, based on information supplied to us by the provider. Specifically, the provider, [X], assumed [X] end-of-contract notifications per customer contract period, but we are only proposing to mandate a single end-of-contract notification per contract period. The caveat set out above regarding possible savings to existing systems not being counted could also support this adjustment. We also note the assumed number of customers estimated by [X] exceeds our own estimate ([X]). For these reasons, our adjustment reduces the original estimate from the provider by two-thirds. To avoid double-counting, we then remove a (market-share weighted) portion of the costs from the overall ongoing cost per year. The provider supplied estimate [X] the overall ongoing cost. It is not clear whether the costs for this provider ([X]) would be applicable to other providers, so we have not applied this estimates to other providers.

¹⁹ We are proposing the notification will only need to be sent to those out-of-contract customers who have not previously received all of the information we have proposed for the out-of-contract notifications. It is unclear what share of customers might be exempt, so on a conservative basis we have assumed all out-of-contract customers would receive the notification.

Estimated costs

A6.37 As set out in Table 3, our indicative estimate of the net present cost for industry over a 10-year horizon is £18-28 million, of which mobile accounts for £4 million and landline, broadband and pay TV in combination account for £14-23 million.

Table 3: Indicative cost estimates 10 Year NPV, £ million²⁰

Service	Implementation	One-off notifications	Ongoing notifications	Total
Mobile	4	0	0	4
Landline, Broadband and Pay TV	4 - 6	2	8 - 15	14 - 23
Total	8 - 10	2	8 - 15	18 - 28

Source: Ofcom analysis. Note: Figures rounded to nearest £1m. Figures may not sum due to rounding.

Benefits

A6.38 In this section we identify the benefits that may accrue to residential consumers as a result of our proposal to require providers to send end-of-contract and out-of-contract notifications to their customers.

Benefits to consumers who lack awareness

A6.39 As discussed in Section 3, our quantitative research shows that some consumers lack awareness in respect of information which is fundamental to their ability to make informed decisions about the services they purchase. In particular, some consumers do not know whether they have reached the end of their minimum contract period, while others cannot recall at what date their minimum contract period ends. Moreover, some consumers do not know what will happen to the price they pay, or the services they receive, at the end of the minimum contract period. Also, some consumers are not aware of the options and savings available to them as they reach this point.

A6.40 We are concerned that some consumers do not exercise informed choice in a timely fashion as a result of this lack of information. We understand that many of these consumers face a price increase at the end of their minimum contract period, and more generally there is a financial penalty associated with remaining out-of-contract. In particular, we find that a substantial number of consumers of dual play, triple play or

²⁰ For implementation costs, the lower end of the range is based on the benchmark estimate, whereas the higher end of the range takes into account more detailed information from some providers. For ongoing end-of-contract notifications costs, the lower end of the range assumes a per-letter cost of 40p and assumes the policy increases the number of in-contract consumers by 2%, whereas the higher end of the range assumes a per letter cost of 40p and assumes the policy increases the number of in-contract consumers by 10%, and for one provider uses more detailed estimates that they have provided. There are also lower and higher estimates for the one-off notifications, based on the same assumptions as the ongoing notifications, but the difference in cost is below £1million and so is not seen in the above table.

standalone pay TV services that are on contracts which include an automatic price increase at the end of the minimum period. We also find that on average consumers that are out-of-contract pay substantially more than consumers who are in-contract. Similarly, we are concerned that some consumers who are on mobile handset contracts do not realise they can switch to cheaper SIM-only deals, and thus continue to pay a price which covers both airtime and handset repayments after their minimum contract period ends.

A6.41 We consider that end-of-contract and out-of-contract notifications can affect the behaviour of consumers who lack awareness²¹ as follows:

- By ensuring that consumers are informed about their minimum contract period end date, the end-of-contract notifications would prevent some consumers from going out-of-contract where otherwise they would not recall they are at the end of their minimum contract period.
- By ensuring that consumers are aware that they are out-of-contract, the out-of-contract notifications would allow consumers to find a better deal (either with their existing provider or by switching to another provider) where otherwise they would not have realised they are out-of-contract.
- By informing consumers that their price will increase, and / or their service may change, at the end of their minimum contract period, the end-of-contract notifications would prevent some consumers from going out-of-contract, as well as provide important information for consumers to use when looking for a better deal.
- By informing consumers of the current price they pay and services they take, the end-of-contract and out-of-contract notifications will provide important information consumers can use when looking for a better deal.
- By informing consumers of the options available to them, and that they may be able to make savings (including the SIM-only option for consumers on a mobile handset contract), the end-of-contract and out-of-contract notifications would allow some consumers to find a better deal and avoid going or remaining out-of-contract.
- By clarifying that no early termination charge is payable after the minimum contract period, the end-of-contract and out-of-contract notifications would allow some consumers to find a better deal where otherwise they would have decided not to do so in order to avoid incurring early termination charges.

A6.42 The extent of the savings that consumers can make by avoid going, and remaining, out-of-contract depend on the contract they have signed with their provider. To get a sense of the magnitude of these savings, we collected information on the average spend by the customers of major providers. Based on these data, it would appear that consumers could make substantial savings in the price they pay by searching for a new deal at the end of their minimum contract period.

²¹ The evidence in relation to consumer lack of awareness is summarised in Section 3.

- The difference between the monthly average in-contract and out of contract spend is as high as £13 for triple play, and £6 for dual play services (see table below).
- The difference between the monthly average out-of-contract spend for mobile handset contracts and the average in-contract spend for SIM-only is as high as £6 (see section 3). While some of this difference may be due to differences in the size of the airtime bundles purchased, we nonetheless consider this as an indicator of the savings that could be made by mobile handset customers who otherwise would have gone out of contract.

Table 4: Difference in average spend for in-contract and out-of-contract consumers, £ / month

Consumer spend (£/month)	Dual play	Triple play	Standalone pay TV
Average in-contract spend	35	52	[§<]
Average out of contract spend	41	65	[§<]
Difference with the average in-contract spend	6	13	[§<]

Source: Ofcom analysis of provider data (for further detail see Annex 7).

A6.43 The fact that the savings could be material is also confirmed with reference to actual contract offers which were made available by providers, as summarized in the table below. The table reports the automatic increase in the monthly price at the end of the minimum contract period, based on actual offers made available by major providers in June 2018. This table illustrates the following:

- The extent of the increase in price that consumers could avoid by engaging earlier depends on the provider with whom a consumer has signed the original contract;
- The extent of the increase in price that consumers could avoid with a given provider depends on the type of product the consumer has signed a contract for (e.g. changes can be different depending on the speed of the broadband part of the contract, but also in terms of the extent of channels included in the TV package); and
- By comparing the actual offers with the difference in average spend, it appears that the difference in average spend may understate the price increase consumers could avoid when signing-up to a new deal earlier as they purchase dual play [§<].

Table 5: Price increase at the end of the minimum contract period for headline packages, £ / month

Provider	Dual play	Triple play	Standalone pay TV
Now TV	£7.99 - £10.99		
Sky	£0 - £12	£4 - £12	£5
Plusnet	£6.99 - £12.48		
EE	£0 - £11	£7.5 - £10.5	
TalkTalk	£0 - £8	£7.05 - £8	
BT	£4 - £20.5	£13 - £16.5	
Virgin Media	£11 - £16	£15 - £37	£0

Source: Ofcom analysis of Pure Pricing Monthly Broadband Pricing Tracker June 2018. Note: Offers in June 2018. Vodafone is not shown in the table, as none of its dual play packages in June 2018 had a price increase at the end of the minimum contract period. For standalone pay TV we only show the increase in price for the base package. We report a range where a provider varies the increase in price across to the packages it offers.

- A6.44 Overall, the analysis suggests that consumers who would no longer go out-of-contract could (i) avoid automatic price increases at the end of their minimum contract period; and (ii) benefit from improved terms, as they sign-up to a promotion or get a discount as they renegotiate with their existing provider or switch to another provider. These consumers could make significant savings, for example between £72 and £156 annually based on the difference in average spends reported above. This is a substantial figure, even if we recognize that the net benefit to consumers from avoiding going out-of-contract may be somewhat lower than this saving, as a result of incurring costs (time and effort) to more frequently search for a new deal.²² We note that such benefits could also accrue to customers who are currently out-of-contract, and who would find a new deal as a result of our proposal to send a one-off out-of-contract notification.
- A6.45 Apart from making savings at the end of their minimum contract period, we consider that end-of-contract and out-of-contract notifications can allow some consumers to more promptly benefit from improvements in service, and/or purchase a deal which is more suited to their needs. As we highlight in Section 3, there has been substantial progress in the services providers make available over time. To the extent that consumers go out-of-contract, they may miss out on the possibility to enter into a new contract which delivers them new services which previously were not available, or only available at prices higher than they were willing to pay. For example, consumers who do not realise they are out-of-contract may miss out on upgrading to superfast broadband, as fibre becomes available in their area.
- A6.46 Our proposal would allow these consumers to more promptly consider the choices available to them, and purchase services they value more compared to the services they

²² We recognise that some consumers may be prompted to engage with the market, incur search costs accordingly, and ultimately decide not to purchase a new deal. Where this is the case, these consumers will incur additional cost, without the benefits in terms of savings in their monthly spend or the improvement in the bundle they purchase. We would expect any such effects to be marginal, and therefore do not consider them further in this analysis.

purchase as part of their current contract. While these consumers might not necessarily make a saving in their monthly spend, they may still be better off in terms of the enjoyment they derive from consuming these services net the price they pay. We think this is particularly likely to benefit consumers who have been, or would become, out-of-contract for a prolonged period of time. In this context, we note that [X].

Benefits to consumers who are more aware

- A6.47 We consider that end-of-contract and out-of-contract notifications would also benefit consumers who currently are informed (at least with respect to some aspects of their contract status, and options available to them).
- A6.48 As discussed in Section 3, currently consumers must actively remember, or search for, their contract terms in order to make an informed decision and exercise choice.²³ Since contracts tend to have a minimum period of one to two years, consumers must expend effort to actively recall these details for a prolonged period of time.²⁴
- A6.49 We believe that this generates costs²⁵, which can be thought of as (i) monitoring costs consisting of the effort required to remember the date their minimum contract period ends, and identify the need to action engagement with the market sufficiently close to this end-date; and (ii) search costs, consisting of the time and effort it takes to contact a provider and confirm the terms a consumer will move to at the end of their minimum contract period, as well as establish the end- date of their the minimum contract period.
- A6.50 The information that we would require providers to include in the end-of-contract and out-of-contract notification would reduce this time and effort, and therefore also benefit these informed consumers. For example:
- As consumers receive an end-of-contract notification, some will save the time they would have otherwise needed to remind themselves of the end-date of their minimum contract period, and find out what would happen to their price and services at that time. In practice, this could entail the time they otherwise would need to contact their provider (via phone or an online portal), or search for their original contract.
 - As consumers receive an out-of-contract notification, some will save the time they would have otherwise needed to go check whether they are out-of-contract. Similarly, this could involve time to contact their provider, or search for their original contract.
- A6.51 Our view that notifications would also benefit these more informed consumers is supported by the evidence we have collected:

²³ This includes the minimum contract period, but also other factors such as price and service changes at the end of the minimum contract period.

²⁴ We note that some providers, notably of mobile services, do publish this information on customer portals.

²⁵ In this context we do not only think of a financial cost, but a broader concept of economic cost which includes, for example, the opportunity cost of time needed to search out this information.

- Across the services, 88%-92% of consumers who said they had at least some idea of when their contract would end, also said they would find it helpful to receive an end-of-contract notification.²⁶ 48%-57% said they would find it very useful, and 31%-41% said it would be fairly useful.
- Across the services, 94% of consumers who were in the last three months of their current contract and said they intended to look for a new deal around the end of their minimum contract period, stated that it would be helpful to receive an end-of-contract notification.²⁷

A6.52 We consider that the group of consumers who could benefit from such savings in time and effort is potentially large, as illustrated in Section 3.

Competition benefits

A6.53 We consider that the information included in end-of-contract and out-of-contract notifications will reduce consumers' cost of engagement in the market. As such, the proposals will enhance the ability of consumers to move from one provider to the other, similar to a reduction in search costs.

A6.54 This reduction in the cost of engagement would in turn assist the competitive process by enhancing the ability of consumers to take informed decisions, and penalise providers for not offering sufficiently attractive deals. We therefore expect that our proposals can put downward pressure on prices, and upward pressure on service and quality, to the benefit of consumers who exercise choice. For example, as consumers have lower costs of engagement, providers may be required to offer deeper discounts when they offer deals to retain consumers near the end of their minimum contract period.

A6.55 Similarly, we consider that the extent to which providers can increase prices at the end of the minimum contract period is likely to be further limited by making this information much clearer to consumers. This could in turn limit the financial penalty to consumers who would go out-of-contract, even with the notifications we propose.

Potential supply side responses

A6.56 We recognise that the requirement to send end-of-contract notifications may provide an incentive for providers to alter their pricing structure. However, the nature and extent of these changes are not straightforward to identify:

- Providers may currently use automatic price increases at the end of the minimum contract period as a method to set different prices between more and less engaged customers. While end-of-contract notifications would allow consumers to sort

²⁶ 88% for dual play, 92% for triple play, 88% for mobile phone and 89% for standalone pay TV. Base includes consumers who reported to be in-contract, and knew when their contract ends at least within a month or two. Source: Ofcom's quantitative consumer engagement research 2018, conducted by Critical, bespoke analysis.

²⁷ Ofcom's quantitative consumer engagement research 2018, conducted by Critical. Bespoke analysis.

themselves differently across the groups between which providers differentiate, providers may find it more profitable to keep the in-contract and out-of-contract price at current levels (assuming there is no competition benefit).

- Providers may discount the in-contract price in order to capture customers who are more engaged, where the depth and frequency of these discounts could be a function of the fraction of consumers who actively search for deals. In this case, increasing the number of customers who engage with the market, for example through end-of-contract notifications, may promote the frequency and depth with which providers are willing to discount in-contract prices.
- Providers may be willing to offer lower in-contract prices, in order to attract customers on which they can earn higher out-of-contract prices at some point in the future. In this case, reducing the number of customers which go out-of-contract may reduce the incentive for providers to offer low in-contract prices.

A6.57 In the first two cases described above, the benefits of our proposals are captured by our discussion above.²⁸ In contrast, if providers have an incentive to raise in-contract prices, the benefits we have identified for consumers who would exercise choice and avoid being out-of-contract are to some extent offset. In particular, abstracting from the benefits to competition, consumers whose behaviour remains unaltered by the proposals may then pay higher prices:

- Consumers who currently exercise choice and never pay out-of-contract prices, may face higher prices as they seek to sign-up to a new deal at the end of their minimum contract period.
- Consumers who would go out-of-contract even with our proposed notifications may also face higher prices, as they would pay higher prices while in-contract and still incur the automatic price increase as they go out-of-contract (this assumes that out-of-contract prices would not fall as a result of our proposals).

A6.58 At this stage, we do not have evidence to determine which of three scenarios above would prevail, and we note that only in one scenario would in-contract prices increase. However, even if providers were to increase in-contract prices following the introduction of end-of-contract notifications, we consider that there are several factors which would imply that the net consumer benefit would remain positive.

- We consider that an increase in in-contract prices is not likely to offset in full the reduction in out-of-contract prices paid by those who avoid being out-of-contract;²⁹

²⁸ In the case where providers would be willing to offer more regular and deeper discounted in-contract prices, any benefits in terms of lower prices could be thought of as being captured by our discussion on competition benefits.

²⁹ The relevant question is whether all of the reduction in profit from a reduction in the number of customers going out-of-contract would be passed on to consumers in the form of increases in the in-contract prices. The extent of this offsetting effect depends, amongst other things, on the nature of competition between

- Competition benefits would ensure that any incentive to increase in-contract prices would be offset, at least partially; and
- The reduction in time and effort for those who are aware would offset any increase of the in-contract price, at least partially.

Balance of costs and benefits

- A6.59 This section describes our approach to assessing the magnitude of our indicative cost estimates relative to the benefits that can be achieved from our proposal. In particular, we illustrate the extent to which our proposal would have to alter consumers' behaviour in order for benefits to exceed the costs we have identified.
- A6.60 As our analysis is illustrative, we have only quantified the benefit to consumers who would exercise choice, and avoid being out-of-contract, as a result of our proposal. For the purpose of this illustrative analysis we have abstracted for simplicity from a number of effects. We have not, at this stage, attempted to quantify the benefit to consumers who are aware in terms of savings in time and effort or more general benefits to competition. In this respect our analysis is conservative, as it overstates the number of consumers who would have to avoid being out-of-contract in order for benefits to exceed costs.
- A6.61 We have also abstracted from potential partial offsetting effects by providers. That is, we do not assess the extent to which benefits may be offset if providers would have an incentive to raise in-contract prices in response to a loss of out-of-contract revenue. To the extent that such an incentive exists, our quantified analysis may understate the number of consumers who would have to avoid being out-of-contract in order for benefits to exceed the costs.
- A6.62 Overall, our assessment is that the costs associated with our proposal are limited, relative to the potential benefits that are likely to be achieved. We consider the analysis to be informative, regardless of the simplified framework of the approach. Even if providers could have an incentive to raise in-contract prices and offset some of the benefit we identify here, we consider that there are sufficient other benefits which remain un-quantified that would allow us to arrive at the same conclusion. In particular, that we have a reasonable basis to believe that the benefits of this intervention will exceed the costs.

Methodology

- A6.63 This section describes the methodology we have used for our illustrative benefits exercise.

providers. Even in markets with active competition, the level in which a loss in profit is passed on may not be complete (i.e. below 100%). This view is consistent with other situations where we have considered potential offsetting effects, such as mobile termination and non-geographic calls (including tiered termination rates).

Benefit profile for consumers who avoid being out-of-contract as a result of the notifications

A6.64 In our assessment, we illustrate the number of consumers who would have to avoid being out-of-contract as a result of our proposal in order for benefits to exceed costs. In order to calculate this figure, we need to establish the benefit profile for each type of consumer who could benefit from our proposal by engaging earlier, and avoid being out-of-contract. We have identified two types of consumers.

- **Out-of-contract customers.** We model the benefit to consumers who are currently out-of-contract, and would sign-up to a new contract as a result of the one-off out-of-contract notification. The benefit to these consumers equates to the saving they can make by signing up to a new contract, and therefore pay lower in-contract prices. We assume that these consumers would immediately change their behaviour upon receiving the out-of-contract notification, and therefore benefit immediately following the implementation of the proposal (i.e. from the start of the first year of our analysis).³⁰ The length of time over which they receive the benefit is a function of how long these consumers would have remained out-of-contract absent out-of-contract notifications, and how long they would have been in-contract if at some point in our timeframe they would have signed-up to a contract.
- **In-contract customers.** We model the benefit to consumers who are currently in-contract, where these consumers would have gone out-of-contract in the absence of an end-of-contract notification. The benefit to these consumers equates to the saving they can make by signing up to a new contract and paying lower in-contract prices, rather than going out-of-contract and paying higher out-of-contract prices.³¹ The length of time over which they receive the benefit is a function of when these consumers would have gone out-of-contract absent end-of-contract notifications, and how long these consumers would have remained out-of-contract.

A6.65 In building the benefit profile for each of the consumer types identified above, we look at the savings they could make by remaining in-contract over a 10-year period following the introduction of our proposal. Consistent with the approach taken to costs, we discount these benefits using the social discount rate of 3.50%.

Factors that determine the modelling outcome

A6.66 As mentioned above, the extent of the benefit that can be achieved depends on a number of factors. We recognise that the outcome of our analysis may be sensitive to the assumptions we make in relation to these factors. That is, the number of consumers who

³⁰ We recognise that for some consumers the benefit would be an improvement in the product they purchase, rather than a reduction in price. As we can think of this scenario as the consumer receiving a discount on the price per unit quality, we believe it is appropriate to measure their benefit also in terms of a reduction in price.

³¹ As for out-of-contract customers, our model also captures benefits from end-of-contract notifications to earlier engagement of in-contract consumers, as a result of which they sign-up (earlier) to a more suitable product for their needs at the end of their minimum contract period.

would have to avoid being out-of-contract in order for the benefit to exceed costs may vary according to these assumptions.

- A6.67 In our analysis, we therefore start from a benchmark model, and we subsequently conduct sensitivities around the assumptions on the values that these factors may take. This is to assess the extent to which our conclusions may change under these alternative assumptions.
- A6.68 First, we consider that consumers who exercise choice (earlier), and avoid being out-of-contract, do so consistently in our 10-year time period. In particular, we assume that consumers who exercise choice (earlier) due to our proposal, would remain in-contract for the entirety of this 10-year period. We consider this a reasonable approach, as the additional information provided by our proposed notifications is meant to allow consumers to take action and avoid paying higher prices as they go out-of-contract. For this reason, we do not conduct sensitivities around this.
- A6.69 Second, the benefit achieved by consumers who avoid being out-of-contract is a key factor that determines the results of our analysis. We assume that the benefit to these consumers is the difference between the price they would have paid while out-of-contract, and the lower price they would pay if our proposal results in them staying in-contract. To estimate this benefit, we take the difference between the average in-contract and out-of-contract spend for each product (see Table 4 above). For our benchmark model, we assume consumers experience this saving entirely as a benefit.
- A6.70 Third, we consider that the extent of benefit to both out-of-contract and in-contract customers would depend on the typical contract length of the products they purchase.
- **Out-of-contract customers.** We recognise that, absent our proposal, some out-of-contract customers would have come back in-contract after some time. As such, we assume that they do not make savings for the time they would have spent in-contract absent our proposal during our 10-year period.
 - **In-contract customers.** If minimum contract periods are one year long, we assume all consumers who are currently in-contract will reach the end of their minimum contract period in the first year of our analysis. For consumers who avoid going out-of-contract due to our proposal, we assume they start accruing benefit from year two of our analysis.³² Alternatively, if minimum contract periods are two years long, we assume that half of in-contract customers come to their contract end in year one of our analysis, and the other half would come to their contract end in year two. Accordingly, consumers who avoid going out-of-contract due to our proposal in year one start benefiting from year 2, and consumers who avoid going out-of-contract in year two start benefiting from year 3.

³² We consider this to be a conservative assumption, as in reality these consumers would have gone out-of-contract at some point during the first year and thus started accruing savings earlier.

A6.71 Related to the relevance of the minimum contract period length, we consider that the extent of benefit to consumers who avoid being out-of-contract would depend on the average time they spend out-of-contract absent our proposal. In particular, customers who would remain out-of-contract for the entirety of the 10-year period would benefit in every year of the analysis, if our proposal results in them becoming in-contract customers throughout the period. In contrast, for consumers who are out-of-contract for less than 10 years absent our proposal, they would only benefit in those years where they would have been out-of-contract.

A6.72 The factors above imply that the point at which benefits start, and the length of time these benefits accrue depend on (i) the contract length; and (ii) the length consumers remain out-of-contract absent our proposal. As we describe further below, we assume in our benchmark model that the contract length is two years, and that out-of-contract consumers on average re-contract after one year.³³ This is conservative, as it requires that a greater number of consumers become engaged for the benefits of our proposal to exceed the costs. In particular:

- As we assume that consumers who go out-of-contract absent our proposal only pay higher prices for one year in each three-year contract cycle (i.e. two years in-contract, and one year out-of-contract) – this assumption limits the number of years during which consumers benefit from our proposal by avoiding higher prices.³⁴
- Our assumptions limit the benefits consumers can gain by assuming the minimum contract period length is two years. This is because we assume that consumers are protected from higher out-of-contract prices for two years, for every time they re-contract during our 10-year period.

A6.73 The factors detailed above also imply that the counterfactual scenario, and hence the benefit profile, may be different across those consumers who are in-contract at the start of our analysis. Likewise, the counterfactual scenario may be different across those consumers who are out-of-contract at the start of our analysis.

- **Out-of-contract consumers.** If the out-of-contract length is two years, the timing as to when an out-of-contract consumer would sign-up to a new contract absent our proposal can vary. This depends on how long the consumer has been out-of-contract at the start of our analysis period. For those consumers who would have been out-of-contract for one year at the start of our analysis, in the counterfactual (that is, absent our proposal)

³³ We recognise that this deviates from our approach in the indicative cost estimates, where we assume that the average contract length is 18 months. We therefore present the results of our model for both scenarios, one which assumes a 2-year contract length, and another scenario which assumes a 1-year contract length. We also note that the 18-month assumption increases the indicative cost estimates, relative to a scenario where we would have used a 2-year contract length.

³⁴ In contrast, in an alternative scenario where the contract length was one year, the out-of-contract period would be two years. In this case consumers who go out-of-contract absent our proposal would pay higher prices for two years in each three-year long cycle.

we assume they would have signed-up to a new deal at the start of year two.³⁵ For those consumers who would have gone out of contract just before the start year of our analysis, in the counterfactual they would have signed-up to a new deal at the start of year three.³⁶

- **In-contract consumers.** If the contract length is two years, the timing in the counterfactual as to when an in-contract consumer would have gone out-of-contract for the first time varies. This depends on how long this consumer has been in-contract at the start of our analysis period. For those consumers who would have been in-contract for one year at the start of our analysis, in the counterfactual we assume they would have gone out-of-contract for the first time at the end of the first year.³⁷ For those consumers who would have gone out of contract just before the start year of our analysis, in the counterfactual they would have gone out-of-contract at the end of year two.³⁸

Benchmark assumptions and Sensitivities

A6.74 We make the following further assumptions in our benchmark model.

A6.75 First, for dual play, triple play and standalone pay TV (collectively ‘fixed’) services, the benefit that can be realised by consumers who avoid being out-of-contract as a result of our proposal is measured by the difference between the average in-contract and out-of-contract spend. We think for triple play and dual play services these savings are reasonable, based on the offers we have identified in the market. If anything, the savings for dual play may understate the extent of benefit consumers may achieve. For standalone pay TV, [3<].³⁹ For mobile handset consumers, we take the difference between the average in-contract spend for SIM-only customers and the average spend for mobile handset customers who are out-of-contract. We consider that this is likely to understate the savings that can be made by mobile handset consumers who are currently in-contract, but would have gone out-of-contract absent our proposal.⁴⁰

³⁵ We assume that in the counterfactual these customers would pay out-of-contract prices for the first year of our analysis, as well as in subsequent years according to the contract cycle.

³⁶ We assume that in the counterfactual these customers would pay out-of-contract prices for the first two years of our analysis, as well as in subsequent years according to the contract cycle.

³⁷ We assume that in the counterfactual these customers would start paying out-of-contract prices for the first time in year two, as well as in subsequent years according to the contract cycle.

³⁸ We assume that in the counterfactual these customers would start paying out-of-contract prices for the first time in year three, as well as in subsequent years according to the contract cycle.

³⁹ See also our discussion in the context of actual offers above.

⁴⁰ This is because handsets have become more expensive over time, and therefore we consider that the difference between the in-contract spend for mobile handsets and SIM-only deals may also have increased over time. This would imply that savings that can be made by handset customers who are currently out-of-contract are likely to be lower as they are on the older and less expensive deals, whereas consumers who are currently in-contract are likely to be purchasing more expensive handsets and therefore could make more savings by going to SIM-only deals.

- A6.76 Second, we assume that the average minimum contract period length is two years, and that consumers do not derive benefit in those years where they are in-contract. We believe this is a conservative assumption, as we observe that there are several contract offers for each of these services which have a length of only 12 or 18 months. Third, we assume that the average out-of-contract length is one year, and that consumers can derive benefit in these years if they avoid being out-of-contract as a result of our proposal. While we do not have direct evidence on the average length of time spent out-of-contract by consumers in each service, we note that for dual and triple play approximately half, or more, of consumers are currently out-of-contract for one year or longer (see Section 3). [§]. The exception is mobile handset contracts, where approximately 40% of consumers are out-of-contract for one year or less.
- A6.77 We also test the sensitivity of our conclusions to each of these assumptions.
- We assess the results of our analysis if we assume the monthly benefit to consumers is only half of the difference in the average in-contract and out-of-contract monthly spend for dual play, triple play and standalone pay TV services.⁴¹ This is to understand how the results vary even if we assume a much lower level of benefit.⁴² This assumption is more conservative than that in the benchmark model.⁴³
 - We assess the result of our analysis if we assume the average contract length is only one year, and the average period out-of-contract is two years. These assumptions are less conservative than those made in the benchmark model.
- A6.78 Finally, to arrive at an estimate of the total number of consumers who would have to avoid being out-of-contract for costs to be exceeded by benefits, we need to make an assumption as to how these consumers are split between the different products in fixed services (i.e. dual play, triple play and standalone pay TV). This is necessary because the benefit profiles vary according to each of the product ‘types’ (that is, dual play, triple play and standalone pay TV). In the absence of clear evidence, we assume throughout the analysis for fixed services, that [§].

⁴¹ We do not conduct this sensitivity for savings by mobile handset consumers, as our view is that the saving we use in the benchmark is already conservative.

⁴² Because savings could be less than the difference in average spend between in-contract and out-of-contract customers, for example where this difference is particularly driven by variation in the average product purchased by each group. Moreover, benefits could be less where consumers who avoid going out-of-contract would also incur search costs.

⁴³ This sensitivity also provides a rough indication of the impact of assuming a partial offsetting effect by providers to raise in-contract prices. Before the statement we may consider further how the benchmark model and sensitivities could be modified or extended to incorporate the potential features of benefits that we have omitted at this stage for simplicity.

Cost assumptions

A6.79 In our analysis we illustrate how many consumers would have to avoid being out-of-contract in order for benefits to exceed our indicative cost estimates. In this context, we test the sensitivity of our analysis to both the upper and lower bound of the cost range we identified. In addition, we assess on an incremental basis the extent to which such earlier engagement can justify each of end-of-contract notifications and the one-off out-of-contract notifications.

A6.80 The relevant cost estimates for our analysis are shown in the table below, which summarises the analysis above.

- As a lower bound, we take the cost estimate which uses (i) the same benchmark implementation cost for all providers; (ii) the lower estimate of the cost to send letters; and (iii) a 2% increment to in-contract consumers as a result of our proposal.⁴⁴
- As an upper bound, we take the cost estimate which uses (i) the individual cost estimates provided by two providers, and the benchmark cost for others; (ii) the higher estimate of the cost to send letters; and (iii) a 10% increment to in-contract consumers as a result of our proposal.

Table 6: Indicative cost estimates for end-of-contract and out-of-contract notifications, £ million

Service	Cost scenarios	Implementation cost	End-of-contract ongoing costs	Out-of-contract one-off cost	Total
Fixed	Lower bound	4	8	2	14
	Upper bound	6	15	2	23
Mobile		4			4

Source: Ofcom analysis. Note: Figures rounded to nearest £1m.

A6.81 We conduct our analysis separately for each of mobile services, and the combination of dual play, triple play and standalone pay TV. This is because we understand there to be synergies in the implementation costs for end-of-contract and out-of-contract notifications to be sent to consumers of dual play, triple play and standalone pay TV services. For each of these two service groups, we then proceed as follows:

- **Out-of-contract notifications.** We determine the number of out-of-contract customers who would have to sign-up to a new deal in order for the benefits of our proposal to exceed the incremental cost of the out-of-contract notifications. For example, assuming

⁴⁴ In principle, the costs of our proposal are themselves dependent on the number of consumers who would avoid being out-of-contract as a result of end-of-contract and out-of-contract notifications. For simplicity, our analysis abstracts from this interaction. Instead, we construct our cost estimates to acknowledge that the number of consumers who remain in-contract will increase as a result of our proposal, and that therefore a greater number of end-of-contract notifications will have to be sent over our 10-year analysis horizon. We then assess whether the number of consumers who have to avoid being out-of-contract in order for benefits to exceed costs is *lower* than the assumed increment in the number of consumers who stay in-contract in our cost estimates.

costs are at the upper bound of our indicative cost estimate for dual play, triple play and standalone pay TV - we assess the number of out-of-contract consumers who would have to exercise choice earlier in order for benefits to exceed £2 million.⁴⁵

- **End-of-contract notifications.** We determine the number of consumers who are currently in-contract, which would have to avoid going out-of-contract for the benefits to exceed the implementation and ongoing costs of end-of-contract notifications. For example, assuming costs are at the upper-bound of our indicative cost estimate for dual play, triple play and standalone pay TV – we assess the number of customers who would have to exercise choice earlier in order for benefits to exceed £21 million (that is, the sum of the implementation cost of £6m and end-of-contract ongoing costs of £15m).

A6.82 We note that this approach allows us to consider the balance of costs and benefits for out-of-contract notifications and end-of-contract notifications taken together, which is our proposal. It shows one combination of the minimum number of out-of-contract and in-contract consumers who would have to avoid being out-of-contract for the benefits to exceed the indicative cost estimate. Benefits could also exceed the cost with other combinations, such as a smaller number of in-contract consumers combined with a larger number of out-of-contract consumers.

A6.83 This approach also allows us to check that out-of-contract notifications are justified if considered as an increment to the introduction of end-of-contract notifications. This is because the incremental implementation costs associated with out-of-contract notifications may be negligible, assuming that providers incur the implementation costs predominantly for end-of-contract notifications. In addition, this approach also justifies the introduction of end-of-contract notifications on an incremental basis. This is because the number of consumers who are currently in-contract and would have to avoid going out-of-contract is set at the minimum level to ensure the benefits exceed all costs associated with end-of-contract notifications – that is, both the ongoing costs, as well as the implementation costs (which would be shared with out-of-contract notifications).⁴⁶ The minimum number of consumers for benefits to exceed the incremental costs for end-of-contract notifications (that is, the ongoing cost of end-of-contract notifications only), would necessarily be smaller.

⁴⁵ As we estimate that the cost of sending out-of-contract notifications in mobile are negligible, accordingly the number of out-of-contract consumers who would have to sign-up to a new deal in order for benefits to exceed these costs is also negligible.

⁴⁶ This represents the costs of introducing end-of-contract notifications on a standalone basis (i.e. in the absence of out-of-contract notifications).

Results

A6.84 Table 7 below summarises the results of our analysis for landline, broadband and pay TV.⁴⁷ The table includes the following analysis:

- The first column ('Cost estimate') indicates the assumption for the indicative cost estimate we target in that row of the table in order to determine the number of consumers who need to avoid going out-of-contract for benefits to exceed the indicative cost estimate. For example, the entries marked as 'low' accord to the scenario which determines the number of consumers who have to alter their behaviour, in order for the benefits to exceed the lower bound of our indicative cost estimates.
- The second column ('Benefit') indicates the assumption for the level of benefit accrued by a single consumer as a result of avoiding being out-of-contract. For example, the entries marked as 'full' accord to the scenario which determines the number of consumers who have to alter their behaviour, assuming the monthly benefit for an individual consumer accords to the full difference in average spend between in-contract and out-of-contract consumers.
- The third column reports the number of out-of-contract consumers who would have to sign-up to a new deal in order for benefits to exceed the one-off costs of sending out-of-contract notifications. To assist interpretation of the results, the fourth column reports this figure as a percentage of all consumers who are currently out-of-contract.
- The fifth column reports the number of consumers currently in-contract who would have to avoid going out-of-contract in order for benefits to exceed the implementation and ongoing costs of sending end-of-contract notifications. The sixth column reports this figure as a percentage of all consumers who are currently in-contract and who report not knowing when their contract will end.⁴⁸

A6.85 On the basis of the table, we highlight the following main conclusions:

⁴⁷ Analysis on the basis of dual play, triple play and standalone pay TV only, as we only have information on potential savings for these services. The analysis is therefore conservative for these services, as costs also include notifications to be sent to standalone landline and standalone broadband consumers.

⁴⁸ In principle, it would be more relevant to express this as a fraction of consumers who would have gone out-of-contract at the end of their minimum contract period absent our proposal. We do not have this figure, and therefore we take as a denominator those consumers who are in-contract, but are unaware of the end of their minimum contract period. We think this overstates the proportion, as (i) consumers who know their contract end when asked need not engage in a timely fashion, for example if they cannot keep track of this date, and thus inadvertently go out-of-contract; and (ii) our end-of-contract notifications will include information which goes beyond the end date of the minimum contract period, and therefore targets a wider group of consumers who lack information on their contract terms, and the choices available to them at the end of their minimum contract period.

- The number of consumers who would have to avoid being out-of-contract in order for benefits to exceed costs are limited, even for the more conservative scenarios (see also paragraphs below).⁴⁹
- As we expect, in the sensitivities with half the saving, the number of those that would have to avoid being out-of-contract is higher. This is because the benefit from this engagement is conservatively assumed to be only half the difference between the average in-contract and out-of-contract spend.
- As we expect, the number of those that would have to avoid being out-of-contract is higher the longer the contract length, and the shorter the time these consumers would spend out-of-contract absent out proposal.
- As discussed above, recognising that end-of-contract notifications may increase the number of in-contract customers, our upper and lower cost estimates reflect an increase of 2% and 10% in in-contract customers respectively. We note that the corresponding percentages of consumers who would have to benefit to exceed these costs are considerably below these figures (note, this is not shown in the table below).

A6.86 In our benchmark analysis, the number of consumers who would have to avoid being out-of-contract for benefits to exceed costs is limited. This is true even if costs were at the higher end of our indicative cost range, and for the scenario assuming the benefit equals the full difference in the average out-of-contract and in-contract spend.

- a) Approximately 5,000 out-of-contract consumers would have to re-contract for benefits to exceed the higher estimate for one-off costs associated with out-of-contract notifications. This accounts for a very small proportion of all out-of-contract consumers.
- b) Less than 70,500 in-contract consumers would have to avoid going out-of-contract for benefits to exceed the higher estimate for implementation cost and ongoing costs. This accounts for less than 2.5% of in-contract consumers who lack awareness in regards to the end of their minimum contract period.

A6.87 Even if we were to take our most conservative scenario (that is, the high cost estimate and assuming the benefit for each individual consumer is only half of the difference between the average in-contract and out-of-contract spend), the number of consumers who would have to benefit is relatively limited.

- Approximately 10,000 out-of-contract consumers would have to sign-up to a new deal for benefits to exceed the higher estimate for one-off costs associated with out-of-contract notifications. This accounts for a very small proportion of all out-of-contract customers.

⁴⁹ This is true, recognising that these consumers would have to avoid going out-of-contract at any point in our 10-year analysis period.

- Approximately 140,500 in-contract consumers would have to avoid going out-of-contract in order for benefits to exceed the higher estimate for the implementation and ongoing costs of end-of-contract notifications. This accounts for approximately 4.5% of all in-contract customers who lack awareness in terms of when their contract would end.
- As noted above, benefits could also exceed the assumed cost with many other combinations, such as a smaller number of in-contract consumers combined with a larger number of out-of-contract consumers.

Table 7: Balance of costs and benefits for broadband, landline and pay TV

Cost	Saving	Out-of-contract notification		End-of-contract notification	
		Number	% out-of-contract ^[1]	Number	% who lack awareness ^[2]
Contract length 2 years, out-of-contract length 1 year					
Low	Full	5,004	<0.1%	40,153	1.3%
	Half	10,009	<0.1%	80,307	2.6%
High	Full	5,004	<0.1%	70,268	2.3%
	Half	10,009	<0.1%	140,537	4.5%
Contract length 1 year, out-of-contract length 2 years					
Low	Full	2,863	<0.1%	20,077	0.6%
	Half	5,727	<0.1%	40,153	1.3%
High	Full	2,863	<0.1%	35,134	1.1%
	Half	5,727	<0.1%	70,268	2.3%

Source: Ofcom analysis of provider data (see Annex 7 for further details). Note: [1] expressed as percentage of all out-of-contract customers (see Annex 7 for further details). [2] expressed as percentage of all in-contract consumers who lack awareness in terms of the end of their minimum contract period.⁵⁰

A6.88 Table 8 below summarises the results of the analysis for consumers who have a contract for mobile services that includes a handset.⁵¹

- The first column ('Contract length) and second column ('Out-of-contract length) report the assumptions made in terms of the contract length and the time on average consumers remain out-of-contract respectively.
- The third column reports the number of consumers currently in-contract who would have to avoid going out-of-contract in order for benefits to exceed the implementation and ongoing costs of sending end-of-contract notifications. The fourth column reports

⁵⁰ Consumers who reported being in-contract, but having little idea of when their contract ends. Ofcom's 2018 quantitative consumer engagement research, conducted by Critical. Slide 15.

⁵¹ As a conservative approach, we do not assume any benefits to SIM-only consumers, although we recognise that they may also benefit from our proposal. For example, if our proposed notifications would allow them to upgrade to larger bundles for the same monthly fee, whereas they may have gone out-of-contract on their existing bundle of services absent our proposal.

this figure as a percentage of all consumers who are currently in-contract and who report not knowing when their contract will end.⁵²

A6.89 The main conclusions from the analysis are the same as those for landline, broadband and standalone pay TV. In particular:⁵³

- As explained above and summarised in Table 6, our analysis suggests that the costs of sending out-of-contract notifications and end-of-contract notifications are negligible, as we have assumed they will be sent by SMS. Therefore, we do not need to assess a minimum number of consumers to exceed these elements of cost. The results in the table therefore relate only to implementation costs, and we consider the minimum number of in-contract consumers who would have to avoid being out-of-contract in order for benefits to exceed costs. As noted above, benefits could also exceed the assumed cost with other combinations, such as a smaller number of in-contract consumers combined with some out-of-contract consumers signing-up to a new deal.
- The number of consumers who would have to avoid being out-of-contract in order for benefits to exceed costs are limited, even for the more conservative scenarios (see also below).
- As we expect, the number of those that would have to avoid being out-of-contract is higher the longer the contract length, and the shorter the time these consumers would spend out-of-contract absent out proposal.
- As discussed above, recognising that end-of-contract notifications may increase the number of in-contract customers, our upper and lower bound cost estimates reflect an increase of 2% and 10% in in-contract customers respectively. We note that the corresponding percentages of consumers who would have to avoid being out-of-contract are considerably below these figures.

A6.90 In our analysis, the number of consumers who would have to benefit to exceed costs is limited.

- Less than 23,000 of mobile handset consumers would have to avoid going out-of-contract for benefits to exceed the higher of the indicative cost estimates – also our most

⁵² In principle, it would be more relevant to express this as a fraction of consumers who would have gone out-of-contract at the end of their minimum contract period absent our proposal. We do not have this figure, and therefore we take as a denominator those consumers who are in-contract, but are unaware of the end of their minimum contract period. We think this overstates the proportion, as (i) consumers who know their contract end when asked need not engage in a timely fashion, for example if they cannot keep track of this date, and thus inadvertently go out-of-contract; and (ii) our end-of-contract notifications will include information which goes beyond the end date of the minimum contract period, and therefore targets a wider group of consumers who lack information on their contract terms, and the choices available to them at the end of their minimum contract period.

⁵³ Note, there is no need to assess that the benefits to consumers currently out-of-contract exceed the cost of sending out-of-contract notifications, nor do we need to assess that the benefits to consumers who are currently in-contract would exceed the costs of sending end-of-contract notifications. This is because the costs of sending these notifications are considered negligible, as we have assumed they will be sent by SMS.

conservative scenario. This would account for less than 1% of in-contract customers who lack awareness in terms of the end of their minimum contract period.

- Less than 11,500 of mobile handset consumers would have to avoid going out-of-contract for benefits to exceed the lower of the indicative cost estimates. This would account for less than 0.5% of in-contract customers who lack awareness in terms of the end of their minimum contract period.

Table 8: Balance of costs and benefits for Mobile customers

Contract length	Out-of-contract length	Number	End-of-contract notification % who lack awareness ^[1]
2	1	22,594	0.9%
1	2	11,297	0.4%

Source: Ofcom analysis of provider data (see Annex 7 for further details). Note: [1] expressed as percentage of all in-contract consumers who lack awareness in terms of the end of their minimum contract period.⁵⁴

⁵⁴ Consumers who reported being in-contract, but having little idea of when their contract ends. Ofcom’s 2018 quantitative consumer engagement research, conducted by Critical. Slide 15.

A7. Data and methodology used to assess consumer outcomes

Introduction

A7.1 This Annex describes the data and methodology used to arrive at the estimates of consumer outcomes presented at paragraphs 3.32 to 3.44 in Section 3. In these paragraphs we report the following statistics for each of the services⁵⁵ analysed:

- the proportion and number of customers who are in-contract, as well as the proportion and number of customers who are out-of-contract for different durations;
- the proportion and number of customers who are on contracts which are subject to an automatic price increase at the end of the minimum contract period; and
- the average monthly spend of customers by contract status.

A7.2 The remainder of this Annex is structured as follows:

- In the section **Data Sources**, we provide a brief description of the origin of the data used for our analysis;
- In the section **Methodology**, we describe how we have used the available data to arrive at the estimates presented in Section 3.

Data sources

A7.3 We used our formal powers to collect information from the following [X]:

- [X]
- [X]
- [X]
- [X]

A7.4 In our request, we asked these providers to report the following information:

- The number of customers who are on contracts that have an increase in price at some point during, and/or at the end of, the minimum contract period. We requested this data for September 2017.

⁵⁵ We include estimates for each of the following services: dual-play (i.e. landline and broadband services), triple-play (i.e. landline, broadband and pay TV services), standalone pay TV, post-pay mobile contracts including a handset, and post-pay SIM-only contracts.

- The number and average spend of customers who are in-contract, as well as the number and average spend of customers who are outside of their minimum contract period. For those customers who are out-of-contract, we asked providers to report separately the number and average spend for customers who have been out-of-contract for different durations.⁵⁶ We requested this data for four distinct months (March, June, September and December 2017).^{57,58}

Methodology

A7.5 This section describes the methodology used to arrive at the estimates presented at paragraphs 3.32 to 3.44 in Section 3.

Analysis of customers' contract status

A7.6 At paragraphs 3.43 and 3.44 of the consultation document, we illustrate the estimated proportion of customers who are in-contract, versus the estimated proportion of customers who are out-of-contract.

A7.7 This analysis is based on data collected as described in the section on **Data sources** above, in particular:

- The number of customers who providers reported as being in-contract; and
- The number of customers who providers reported as being out-of-contract, split by the duration for which customers were out-of-contract.⁵⁹

A7.8 Using this data, we applied the following methodology to arrive at our estimates:

- First, we aggregated the number of customers across providers to arrive at the total number of customers who are (i) in-contract; (ii) out-of-contract for any duration; and (iii) out-of-contract for different durations.
- Second, we used these aggregate figures to calculate the proportion of customers who are (i) in-contract; (ii) out-of-contract for any duration; and (iii) out-of-contract for different durations.

A7.9 As data was collected only for a subset of providers, our estimate of the proportion of in-contract and out-of-contract customers does not reflect all providers of a given service.

⁵⁶ Namely, those customers who are out-of-contract for: (i) one month or less; (ii) more than one month, and up to or less than three months; (iii) more than three months, and up to or less than six months; (iv) more than six months, and up to or less than twelve months; (v) more than twelve months, and up to or less than twenty-four months; and (vi) more than twenty-four months.

⁵⁷ [Redacted]

⁵⁸ [Redacted]

⁵⁹ [Redacted]

That said, we assume for the purpose of our analysis that this proportion is representative for the entire service.

- A7.10 Separately, we estimate the total number of customers for each service. For this, we used the following methodology:
- First, we calculate the total number of customers across all providers who reported data for a given service [§<].⁶⁰
 - Second, in order to arrive at an estimate of the total number of customers by service, we adjust the total customer number based on our Section 135 data by an appropriate factor. This is to account for the fact that the providers we requested information from do not account for the entirety of a given service.⁶¹ We estimate these factors based on the market share of the providers who are covered by our information requests.⁶²
- A7.11 Finally, in order to arrive at an estimate of the total number of customers who are in-contract by service, we multiply the total number of customers for a given service by the proportion of customers who are in-contract for that service. We apply the same approach to estimate the total number of customers who are out-of-contract for a given service.

Analysis of price changes at the end of customer contracts

- A7.12 At paragraph 3.32 in Section 3, we report the estimated proportion and number of customers who are on a contract with a price increase at the end of the minimum contract period.
- A7.13 This analysis is based on data collected as described in the section on **Data sources**. In particular, we use the reported number of customers with an automatic price increase at the end of the minimum contract period only.
- A7.14 Using these data, we apply the following methodology to arrive at our estimates:
- First, for each service, we aggregate across providers the number of customers who are on a contract with an automatic price increase at the end of the minimum contract period only.
 - Second, we use these aggregate figures to calculate the proportion of in-contract customers who were on contracts with an automatic price increase at the end of the minimum contract period only.

⁶⁰ There is some uncertainty about the extent to which quad-play customers are accounted for in the data given to us by providers, and so there is an associated margin of error in our estimates of the overall number of subscribers.

⁶¹ For standalone landline and broadband, the total subscriber figures are taken from the [2017 Review of the market for standalone landline telephone services statement](#) (paragraph 2.5 of the statement and paragraph 1.12 of the evidence supporting the statement).

⁶² For example, if our information request covered 80% of the market, the appropriate factor would be 1.25. We use the market shares implied by [§<]. [§<].

- A7.15 As data was collected only for a subset of providers, our estimate of the proportion of customers with an automatic price increase at the end of their minimum contract period does not reflect all providers of a given service. That said, we assume for the purpose of our analysis that this proportion is representative for the entire service.
- A7.16 Separately, we estimate the total number of customers who are on a contract with an automatic price increase at the end of their minimum contract period. For this, we use the total number of customers for a given service, an estimate based on the methodology detailed at paragraph A6.10 above.
- A7.17 Finally, in order to arrive at an estimate of the total number of customers who are on a contract with an automatic price increase at the end of their minimum contract period only, we multiply the total number of customers by service by the proportion of customers who are on a contract with an automatic price increase at the end of the minimum period only.

Analysis of the average price paid by customer contract status

- A7.18 At paragraphs 3.35 and 3.36 in Section 3, we report the average spend by service and customer contract status.
- A7.19 This analysis is based on data collected as described in the section on *Data sources*, in particular:
- The average monthly spend for, and number of, in-contract customers; and
 - The average monthly spend for, and number of, out-of-contract customers. This data is split by different durations for which these customers have been out-of-contract.
- A7.20 Using these data, we apply the following methodology to arrive at our estimates:
- First, we estimate a provider's share of the total number of customers within a given service and customer contract status (that is, in-contract, out-of-contract for any duration, out-of-contract for different durations).
 - Second, we construct a weighted average spend for each service and customer contract status, by weighting each provider's average spend for a given service and customer contract status by its share of all customers in this group.

A8. End-of-contract and out-of-contract notification process

Process to generate end-of-contract notifications

A8.1 This Annex details the basic process steps to deliver an automated end-of-contract notification to residential consumers and Small Businesses.

- **Identify customer end of contract date.** The process starts by identifying all customers who are at a point between 40-70 days before their minimum contract period is due to end.
- **Collection of data for notification.** There is a process to retrieve the required customer notification information from customer relationship management (CRM), customer service agent (CSA) and billing systems. Data to be collected will consist of the following:
 - the date on which the customer's minimum contract period ends;
 - any applicable notice periods;
 - the monthly subscription price currently paid;
 - any changes to the monthly subscription price at the end of the minimum contract period;
 - a reminder if any historical discounts had applied during minimum contract period;
 - current services taken, including additional benefits that accompany the contract, such as free subscriptions to other services (e.g. Netflix, Spotify);
 - any changes to the services provided at the end of the minimum contract period; and
 - a list of other services taken with the same provider pursuant to other contracts.
- **Populate database.** Information is collated into a database.
- **Understand contact preferences and identify customers who have opted in or opted out of receiving marketing.** This process identifies a customer's preferred method of contact and determines whether the end-of-contract notification will be sent as a letter, SMS or email. The process will identify whether a customer has opted into marketing, in which case the provider may wish to include a marketing offer at the end of the contract notification.

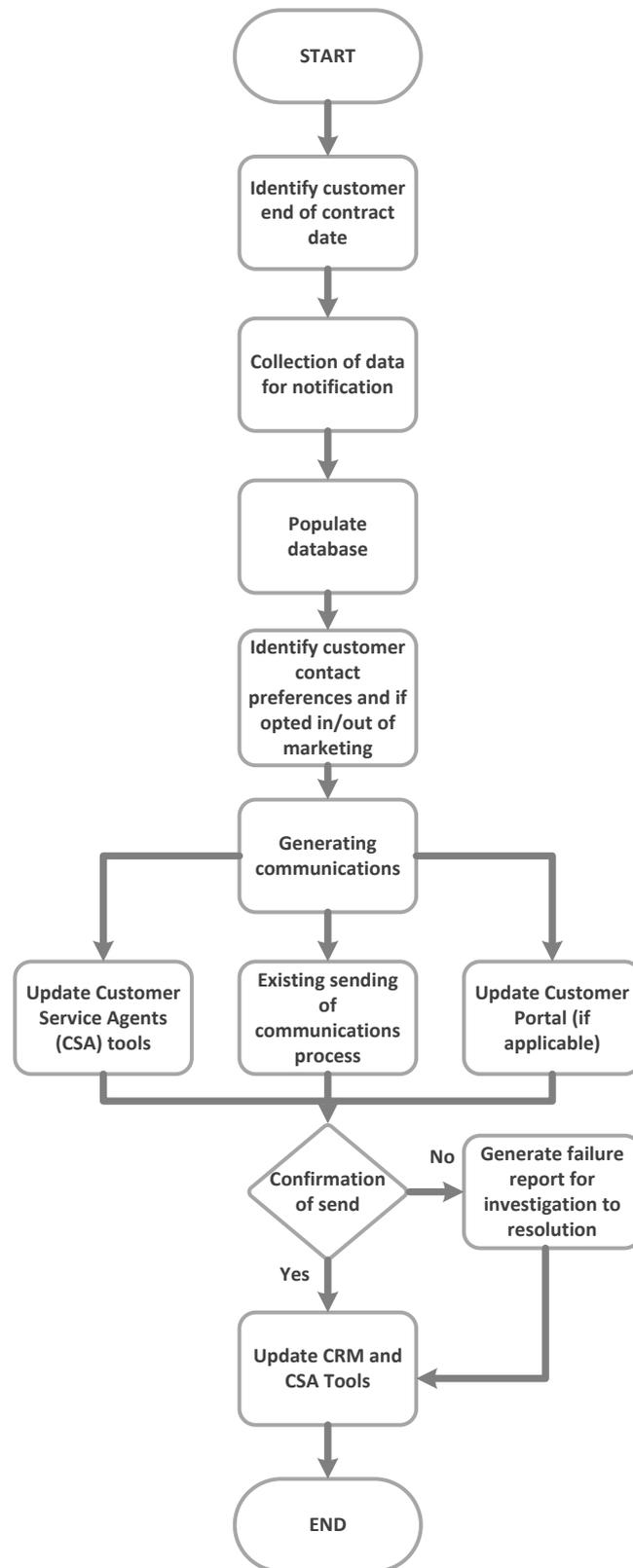
- **Generating communications.** This process transforms the data into the correct formatting and templates for sending the end-of-contract notification. At this point providers can only insert additional marketing material to customers who have opted in to receive marketing.
- **Existing sending of communications process.** All providers have predefined processes for the delivery of communications to their customers.
- **Update Customer Portal (if applicable).** This process is to deliver the relevant end-of-contract information for inclusion in the customer's web portal.
- **Update Customer Service Agents (CSA) tools.** This process will ensure customer service agents have the end-of-contract notification details to support customer calls. Many providers' customer agents will already be able to see this information.
- **Confirmation of send and update to CRM and CSA systems.** These processes notify systems and enable the provider to check if the end-of-contract notification has been sent to the customer.
- **Generate failure report for investigation to resolution.** If the process fails to send a notification a failure report will be produced and the provider will use their operational process to resolve.

Process to generate out-of-contract notifications

A8.2 The same process would apply for sending the one-off out-of-contract notification to residential consumers and Small Businesses, with the exception that the data collected will only consist of the following:

- the date the customer's minimum contract period ended;
- any applicable notice periods;
- the monthly subscription price currently paid;
- current services taken, including additional benefits that accompany the contract, such as free subscriptions to other services (e.g. Netflix, Spotify); and
- a list of other services taken with the same provider pursuant to other contracts.

Figure 1 High level information process flow



Source: Ofcom

A9. Notification of proposed new general condition and modifications to the General Conditions under section 48A(3) of the Act

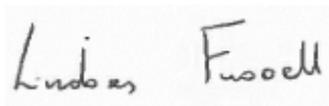
Proposal to set a new general condition and to modify the General Conditions

Background

1. Ofcom Proposes:
 - a. To set new general conditions;
 - b. To modify the existing general conditions; and
 - c. To add new definitions to the general conditions.
2. The draft new general condition is set out in Schedule 1 to this Notification and the draft modifications are set out in Schedule 2 to the Notification.
3. Ofcom's reasons for making these proposals, and the effect of the proposals, are set out in the accompanying consultation document.
4. Ofcom considers that the proposals comply with the requirements of sections 45 to 49C of the Act, insofar as they are applicable.
5. Ofcom considers that the proposals are not of EU significance pursuant to section 150A(2) of the Act.
6. In making these proposals, Ofcom has considered and acted in accordance with its general duties under section 3 of the Act and the six Community requirements set out in section 4 of the Act.
7. Representations may be made to Ofcom about the proposals until 5pm on 9 October 2018.
8. If implemented, the new general condition and the modifications shall enter into force on the date of Ofcom's final statement in relation to these proposals, or such later date as may be specified therein.
9. A copy of this Notification is being sent to the Secretary of State in accordance with section 48C(1) of the Act.
10. In this Notification:
 - a. "**Act**" means the Communications Act 2003;

- b. **“General Conditions of Entitlement”** and **“General Conditions”** means the general conditions set under section 45 of the Act, effective from 1 October 2018, as amended or replaced from time to time;⁶³
 - c. **“Ofcom”** means the Office of Communications.
11. Words or expressions shall have the meaning assigned to them in this Notification, and otherwise any word or expression shall have the same meaning as it has in the Act.
 12. For the purposes of interpreting this Notification: (i) headings and titles shall be disregarded; and (ii) the Interpretation Act 1978 shall apply as if this Notification were an Act of Parliament.
 13. The Schedules to this Notification shall form part of this Notification.

Signed by

A handwritten signature in black ink that reads "Lindsey Fussell". The signature is written in a cursive style and is positioned above the printed name.

Lindsey Fussell

Group Director - Consumer

A person authorised by Ofcom under paragraph 18 of the Schedule to the Office of Communications Act 2002

31/07/18

⁶³ Ofcom, Review of the General Conditions of Entitlement – revised General Conditions (Annex 14), 19 September 2017: https://www.ofcom.org.uk/data/assets/pdf_file/0023/106394/Annex-14-Revised-clean-conditions.pdf

SCHEDULE 1

Ofcom proposes that the following new provisions shall be inserted into General Condition C1 in Part C ('Consumer protection conditions') of the General Conditions.

1. In Condition C1 of the General Conditions, the following modifications marked in bold and highlighted in yellow shall be made to the preamble:

C1 Contract requirements

*This condition aims to protect consumers and end-users by ensuring that contracts for a connection to a public electronic communications network or for public electronic communications services include minimum terms and information. It also sets out requirements about contract duration, **end of contract and out of contract notifications**, facilitating changes of communications provider and end-users' rights to terminate a contract, which are designed to ensure that end users are treated fairly and able to switch to a different provider in appropriate cases.*

2. The following provisions shall be inserted into Condition C1 after Condition 1.9:

"End of Contract Notifications

- C1.10 **Conditions** C1.11 to C1.26 will have effect from [date to be inserted – proposed to be 6 months after publication of final statement].
- C1.11 **Regulated Providers** must send an **End of Contract Notification** to each of their **Domestic and Small Business Customers** who have entered into a contract with a **Fixed Commitment Period** of greater than 6 months in the manner and form specified by these **Conditions**.
- C1.12 An **End of Contract Notification** shall include at least the following information in respect of a **Subscriber's** contract, in a clear, comprehensive and easily accessible form:
- (a) the date on which the **Fixed Commitment Period** ends;
 - (b) that the **Subscriber** may terminate the contract without paying an **Early Termination Charge** once the **Fixed Commitment Period** ends, subject to any applicable notice periods, detailing what those notice periods are;
 - (c) the services provided by the **Regulated Provider** to the **Subscriber** pursuant to the contract;
 - (d) the **Core Subscription Price** incurred by the **Subscriber** pursuant to the contract;
 - (e) whether any discounts have been applied at any point during the **Fixed Commitment Period**;

- (f) details of any changes to the services referred to in (c) that will come into effect once the **Fixed Commitment Period** ends;
 - (g) details of any changes to the **Core Subscription Price** incurred by the **Subscriber** for the services referred to in (c) that will come into effect once the **Fixed Commitment Period** ends;
 - (h) details of the options available to the **Subscriber** at the end of the **Fixed Commitment Period**. This should include a message that the **Subscriber** may be able to make savings by exploring the available options. An **End of Contract Notification** to a **Subscriber** of a **Mobile Communications Service** shall include reference to **SIM Only Contract** as an available option.
 - (i) the services provided by the **Regulated Provider** to the **Subscriber** pursuant to any other contract.
- C1.13 Of the information that shall be included in an **End of Contract Notification**, pursuant to **Condition C1.12**, the date on which the **Fixed Commitment Period** ends and details of any changes to the **Core Subscription Price** must precede any other item.
- C1.14 An **End of Contract Notification** shall be sent to **Subscribers** 40 to 70 days before the end of the **Fixed Commitment Period**.
- C1.15 An **End of Contract Notification** must be sent via a **Durable Medium** using the customer's preferred method of contact, if known, otherwise via the same method by which the **Subscriber** is provided with billing information.
- C1.16 Subject to **Condition C1.17**, in the case of an **End of Contract Notification** sent via **SMS**:
- (a) the information listed in **Conditions C1.12(a), (d) and (g)** must be included in an **SMS**;
 - (b) the information listed in **Conditions C1.12(b), (c), (e), (f), (h) and (i)** may be provided either in the above **SMS**, or separately. If provided separately, exactly how it will be provided must be explained in the above **SMS**.
- C1.17 An **End of Contract Notification** sent via **SMS** to a **Subscriber** of a **Mobile Communications Service** shall include reference to **SIM Only Contract** as an available option in the **SMS**. Other options to be included in an **End of Contract Notification**, pursuant to **Condition C1.12(h)** may be provided separately.
- C1.18 A **Regulated Provider** may include sales and marketing information in an **End of Contract Notification**, however any such sales and marketing information may only appear after all the information detailed in **Condition C1.12**, and must appear separate and distinct from the information detailed in **Condition C1.12**.

Out of Contract Notifications

- C1.19 By no later than *[date to be inserted – proposed to be 9 months after publication of final statement]* **Regulated Providers** must send an **Out of Contract Notification** to each of their **Domestic and Small Business Customers** in the manner and form specified by these **Conditions**, who as at [DATE], meet the following criteria:
- (a) the **Subscriber** has previously entered into a contract with the **Regulated Provider** with a **Fixed Commitment Period** of greater than 6 months;
 - (b) the **Fixed Commitment Period** for that service has expired;
 - (c) the **Subscriber** remains a customer of the **Regulated Provider** in respect of the service in question but has not entered into a new contract or agreed to a further **Fixed Commitment Period**.
- C1.20 The requirement to send an **Out of Contract Notification** pursuant to **Condition C1.19** only applies with respect to **Subscribers** who have not received an **End of Contract Notification**, pursuant to **Condition C1.11**.
- C1.21 An **Out of Contract Notification** shall include at least the following information in respect of a **Subscriber's** contract, in a clear, comprehensive and easily accessible form:
- (a) the date on which the **Fixed Commitment Period** ended;
 - (b) that the **Subscriber** may terminate the contract without paying an **Early Termination Charge**, subject to any applicable notice periods, detailing what those notice periods are;
 - (c) the services provided by the **Regulated Provider** to the **Subscriber**, pursuant to the contract;
 - (d) the **Core Subscription Price** incurred by the **Subscriber** pursuant to the contract;
 - (e) details of the options available to the **Subscriber**. This should include a message that the **Subscriber** may be able to make savings by exploring the available options. An **Out of Contract Notification** to a **Subscriber** of a **Mobile Communications Service** shall include reference to **SIM Only Contract** as an available option.
 - (f) the services provided by the **Regulated Provider** to the **Subscriber** pursuant to any other contract;
- C1.22 Of the information that shall be included in an **Out of Contract Notification**, pursuant to **Condition C1.21**, the date on which the **Fixed Commitment Period** ended must precede any other item.

- C1.23 An **Out of Contract Notification** must be sent via a **Durable Medium** using the customer's preferred method of contact, if known, otherwise via the same method by which the **Subscriber** has access to billing information.
- C1.24 Subject to **Condition** C1.25, in the case of an **Out of Contract Notification** sent via **SMS**:
- (a) the information listed in **Conditions** C1.21(a) and (d) must be included in an **SMS**;
 - (b) the information listed in **Conditions** C1.21(b), (c), (e) and (f) may be provided either in the above **SMS**, or separately. If provided separately, exactly how it will be provided must be explained in the above **SMS**.
- C1.25 An **Out of Contract Notification** sent via **SMS** to a **Subscriber** of a **Mobile Communications Service** shall include reference to **SIM Only Contracts** as an available option in the **SMS**. Other options to be included in an **Out of Contract Notification**, pursuant to **Condition** C1.21(e) may be provided separately.
- C1.26 A **Regulated Provider** may include sales and marketing information in an **Out of Contract Notification**, however any such sales and marketing information may only appear after all the information detailed in **Condition** C1.21, and must appear separate and distinct from the information detailed in **Condition** C1.21."

SCHEDULE 2

3. In Condition C5 of the General Conditions, the following modifications marked in bold and highlighted in yellow shall be made to Condition C5.13:

C5 Measures to meet the need of vulnerable consumers and end-users with disabilities

C5.13 **Regulated Providers** must make available, free of charge, and in a format reasonably acceptable to any **Subscriber** who is blind or whose vision is impaired, upon their request:

- (a) any contract (or any subsequent variation) with that **Subscriber** for the provision of **Public Electronic Communications Services**, including any publicly available terms or conditions referred to in that contract, ~~or~~ variation, **End of Contract Notification, or Out of Contract Notification**; and
- (b) any **Bill** rendered or made available in respect of those services.

SCHEDULE 3

1. In the 'Definitions' section of the General Conditions, the following new definition shall be inserted in the appropriate alphabetical place:

“End of Contract Notification’ means a communication sent by **Regulated Providers** to their **Subscribers** in accordance with Condition C1.11 ahead of the expiry of the **Fixed Commitment Period.**”

“Out of Contract Notification’ means a communication sent by **Regulated Providers** to their **Subscribers** in accordance with Condition C1.19 following the expiry of the **Fixed Commitment Period.**”