



Switching phone and broadband companies

An Ofcom consultation

Consultation

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Making switching simpler. We'd like your views.

Ofcom is the UK's communications watchdog. We watch over everything from television and radio broadcasting to mobile and fixed-line phone services.

One of our many roles is to protect consumers and encourage healthy competition among the phone and internet providers. If there are several companies out there wanting your business, they want to out-do each other with better services and keener prices. And that's great for us as customers.

However, there can be problems. Even if you know where you can get a better deal, actually making the move can turn out to be a lot of hassle – and that puts people off bothering.

At Ofcom we're looking into the whole process of switching, starting with landline and broadband services. This is where the worst problems seem to crop up.

This consultation is to discuss what we've found, and to ask for your views on our ideas to make switching easier. Below is a brief summary, but for the full consultation document please go to: <http://stakeholders.ofcom.org.uk/consultations/consumer-switching>

How switching could be better

Customers should be able switch their providers when they want, without any great effort, hassle, problems or worry. But if they're not confident of a good experience, they may well choose to stay where they are.

In turn, this may dampen down competition between the phone and broadband companies. Competition only works when low quality or poor value is 'punished' by customers who up and leave for better deals elsewhere. By the same token, good services are rewarded by customers who choose to stay put, or who switch to them.

In our research, we found a number of things that put people off the idea of switching – or gave them a poor experience if they went through with it.

They include:

- **The hassle factor.** A significant number of people see switching as a real hassle.

For example, our research into the Migration Authorisation Code (MAC) process showed that customers found the experience relatively poor. In the MAC process, you have to go to the 'Losing Provider' – the company you're leaving – and get a MAC code from them. The customer then gives this code to their new provider within 30 days. We found that almost a quarter of people who were switched in this way found it difficult. However, customers were much more likely to be favourable towards a process where the Gaining Provider takes the lead.

- **“What am I getting into?”** Customers aren't clear on how switching works – not surprising when the phone and internet companies have different processes, even to switch the same service. People also hope for a neat, single switch when a bundle of services is involved. But in reality, this may mean trying to co-ordinate two or three switches at once.
- **'Black holes'**. During a switch, a fair number of people find themselves with no phone or broadband service at all. They have left their old company but the new service hasn't yet started. To avoid this, some people get into extra costs by paying to make sure the two services overlap.
- **'Slamming'**. We receive many complaints from people who find they have been moved to a new provider without their knowledge or consent. This can be distressing for customers, who also have to spend time and effort in sorting it out.
- **Bad losers.** Some customers have found that the Losing Provider they're leaving drags its feet in providing the information they need to make a move.
- **Improved offers.** When a Losing Provider is meant to be leading the switching process, they will often launch 'save' activity. This is a last-ditch attempt to keep the customer by coming up with a better offer. Indeed, some put heavy sales pressure on customers to stay. This is bad for competition and, in the long run, delivers a poor deal for customers as a whole.

The effects on competition and the market

We have looked into the effects that switching processes have on competition and the structure of the market.

- **Switching costs.** The processes with higher costs are more likely to harm customers and indeed competition. Overall, the evidence suggests that processes led by the Losing Providers give a poorer experience for customers. They also have higher switching costs compared to the Notice of Transfer (NoT) process led by Gaining Providers.
- **Save activity.** When the switching process means that customers have to tell a provider they want to leave, that Losing Provider has a ready-made opportunity to try to keep them. This creates a number of issues:
 - It is likely to dampen competition between existing players. Offering deals to their own customers that are planning to leave can weaken the firms' incentives to win each other's customers.
 - This price-matching also puts off new providers from coming into the market because building a customer base is that much more difficult.
 - Providers tend to focus their save activity on higher-value customers. This means that customers who are 'let go' are often lower-value, and less attractive to compete for. This is another factor that puts off new providers from entering the market.
- **Multiple switching processes**

When switching involves several different processes for the same service or bundle of services, costs are likely to be higher.

If the ability to win/retain customers is easier with some processes, then different processes for the same services may also mean that some providers have a competitive advantage over others.

Which options have we looked at?

In the full consultation document, you'll see we have looked at both Gaining Provider (GPL) and Losing Provider (LPL) switching processes. We have considered

improved versions of both which try to deal with their weaknesses. We've also looked at other options which would need more substantial changes to improve on where we are now.

- **The LPL 'Enhanced MAC/PAC'** process would separate out save activity from providing customers with codes. Codes would be given via a separate telephone number or automated system. Any save activity linked to this would be prohibited.
- We have looked at an **LPL 'Transfer Code'** option, suggested by BT. This is similar to an LPL code process, but with more automation to reduce mistakes. It would also make codes simpler and easier for customers to access.
- An improved version of the **GPL Notice of Transfer (NoT)** option has new standards concerning record-keeping and tighter rules on sending NoT letters. It also allows for a consumer protection process, where the Losing Provider can cancel the switch if a customer claims they are being slammed.
- A process used in the energy sector is known as '**Code on Bill**' and we've looked at this also. To switch, the customer gives the Gaining Provider a code and other details provided on their bill. These are then checked by the Losing Provider before the switch goes ahead.
- We have also considered a **GPL 'Third Party Validation'** scheme. Here, an independent third party is brought in to check and enable the switch. A similar process is used for certain communications services in the USA, Spain and Ireland.

To find out which processes offer the best results, both for making switching easier and for promoting competition, we will judge them against a number of principles.

We are looking for processes which:

1. Keep switching costs to a minimum, both for individual services and bundles.
2. Protect against slamming.
3. Make it quite clear to customers what they need to know about a switch.
4. Are reliable, and can be quickly fixed if things go wrong.
5. Give customers an uninterrupted service.
6. Encourage competition.
7. Are good value to put in place, and to operate.

Of these, we see 1, 2 and 6 as being particularly important especially when choosing between GPL and LPL processes.

What we're proposing

We believe that a smooth and easy switching process is in everyone's interests.

Customers can feel comfortable in taking full advantage of the best deals on the market. And the providers themselves will have a positive incentive to raise their game, and gain the rewards that go with it.

Ofcom believes that, in principle, if the Gaining Provider takes the lead in the switching process, it is likely to create a better experience for the customer and improve competition. This is because:

- the Gaining Provider has good reason to make things happen smoothly;
- Gaining Providers' processes are more likely to deliver lower prices, greater choice and innovation because providers are more likely to compete hard for your business; and
- as other countries show, the risks of slamming can be controlled when there are specific protection measures in place.

Also in the equation

There is still work to do on our proposals. We need to look at the costs involved in changing from the current switching processes to a possible new approach.

We are also looking closely at bundles. Around half of us now choose a bundle of two or more services, such as phone and broadband together. And that in turn can make switching more complicated.

Ofcom is also looking at the UK rollout of super-fast broadband, which will make surfing and downloading much faster and open up exciting new services. Switching processes have not yet been agreed, and we'll be considering how Gaining Providers can take the lead here too.

What do you think?

Whether you're a phone or internet provider, a customer, or have any other interest in the switching process, now's the time to give us your feedback on our proposals.

Ofcom's consultation is now live and runs until 19 November. What you tell us will contribute to a second consultation to be launched in May/June 2011.

How to take part

Please take a look at the questions we ask about switching at:

<http://www.ofcom.org.uk/consult/condocs/consumer-switching/howtorespond/form>

If possible, please give us your views then and there, online.

Alternatively, you can respond:

- by **email** to consumerswitching@ofcom.org.uk This is for larger responses which may include charts, tables or other data
- by **post or fax** to:

Gavin Daykin or Katharine Morrison
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Consumer Affairs – Strategy & Market Developments
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Fax: 020 7981 3333

The deadline for your responses is **19 November 2010, 5pm**.

We don't need a paper copy of your responses if you have sent them electronically.

Please also note that we like to publish everyone's views on our website. We'll assume that your response is not confidential, and that we're free to publish it in full, unless you tell us otherwise.

Our consultations in general

Ofcom is always keen to hear any feedback on the way we handle our consultations.

In particular, we value your thoughts on how we can reach individuals, smaller groups and small businesses who are less likely to take part in formal consultations.

Please call our Consultation Helpdesk on 020 7981 3003 or email consult@ofcom.org.uk

You can also write to:

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