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## Helping customers get better deals

A review of the impact of end-of-contract notifications and pricing commitments by broadband and mobile providers

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# 1. Overview

We want customers to be able to take advantage of the wide choice of services available and shop around with confidence, so that they can get the best deals for their needs. To help achieve this, we introduced new rules, which came into effect in 2020, requiring providers to send important information to their customers – both when their contracts are coming to an end and on a regular basis after that. We also secured commitments from major providers to protect customers from certain types of pricing practices. This report examines the impact of these measures so far.

## What we have found

End-of-contract notifications (ECNs) appear to have had a positive impact on customer engagement. In particular:

- **There has been a positive increase in engagement among broadband customers.** In 2020, 35% of broadband customers were out of contract, compared to 40% in 2019. This amounts to a reduction in the number of out-of-contract customers of over one million. Average prices paid by broadband customers also fell over the same period.
- Engagement improved among broadband customers nearing their contract end date, as well as those already out of contract, while vulnerable customers were also more engaged in 2020.
- **Engagement among mobile customers has been broadly stable in recent years, but there is some evidence that engagement is now increasing.** The proportion of mobile customers who were out-of-contract fell slightly from 27% in 2019 to 25% in 2020.
- People whose mobile contracts ended in 2020 were more likely to engage compared to people in the same position in 2019. We did not observe different outcomes for vulnerable customers.

We have also updated our analysis on the prices paid by out-of-contract broadband customers, and the extent to which bundled out-of-contract mobile customers overpay compared to customers on comparable SIM-only deals. We found that:

- **There has been a significant reduction in the impact of higher out-of-contract prices** (price differentials) on vulnerable broadband customers, and the total overpayment by bundled out-of-contract mobile customers, since our pricing commitments took effect.
- Out-of-contract broadband customers pay around £5.10 more per month than their provider's average price for their service. This is a slight increase from £4.70 per month in 2019 which in part reflects lower prices for new customers rather than an increase in the prices paid by out-of-contract customers.
- **The price differential paid by vulnerable broadband customers significantly reduced between 2019 and 2020, from £4.40 to £2.30**, indicating that the commitments we secured to protect vulnerable broadband customers from higher prices are having a positive impact.
- **The annual aggregate overpayment among bundled out-of-contract mobile customers has more than halved since we intervened, from £182m per year in 2018 to £83m per year in 2020.**

- Mobile customers are increasingly opting for SIM-only deals as well as split contracts, where the handset and airtime is purchased separately. More providers are starting to offer split contracts too, sometimes withdrawing traditional bundled deals from the market. This is consistent with what we said in our 2019 review of this issue – that the problem of overpayment by bundled out-of-contract customers should decline over time – and we expect this to continue.

### Our next steps

- We are encouraged by the increase in customer engagement since ECNs came into effect, especially in broadband. We also welcome the significant reduction in the average price differential paid by out-of-contract vulnerable broadband customers, and the significant reduction in overpayment by bundled out-of-contract mobile customers since the commitments we secured took effect. **We will continue to monitor key trends in pricing and customer engagement, in particular as ECNs and annual best tariff notifications (ABTNs) become more established.**

## Background

- 1.1 We believe that customers should get a fair deal for their communication services. We want people to shop around with confidence, make informed choices and switch easily. We also want to make sure customers, particularly those who are vulnerable, are treated fairly.<sup>1</sup>
- 1.2 Competition and innovation in the market have resulted in lower prices, better services, wider availability and improved reliability in recent years. However, we have had concerns that providers do not always make it easy for customers to get the best deal for their needs, meaning some customers pay more than they need to. So we have taken action to help ensure customers can shop around with confidence, make informed choices, and ultimately get the right deal for them.
- 1.3 We introduced new rules requiring providers to tell their customers about their best deals when their contracts are coming to an end, via ECNs. Customers who remain out-of-contract must be given best tariff information by their provider at least annually via ABTNs. These rules came into effect in February 2020.
- 1.4 We also secured commitments from most major broadband and mobile providers to reduce prices for certain groups of customers. In particular, we secured commitments from major broadband providers to help protect vulnerable customers from paying higher out-of-contract prices. These providers introduced protections for customers who they know are vulnerable, moving those who are paying higher out-of-contract prices onto better prices, usually through annual account reviews. These commitments came into effect at various points throughout 2019 and 2020.

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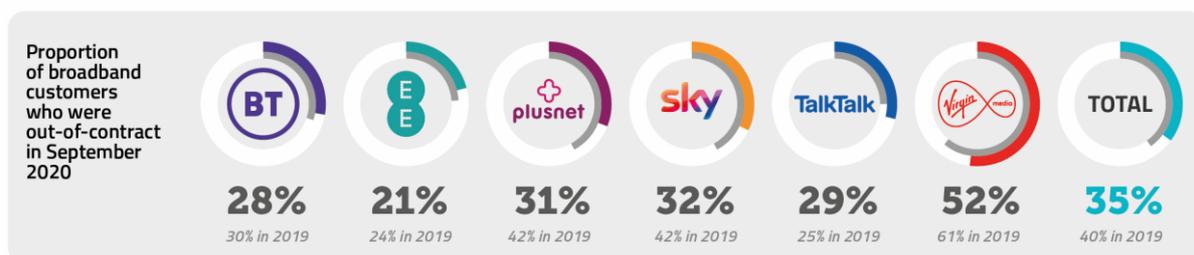
<sup>1</sup> Ofcom, March 2021. [Ofcom's Plan of Work 2021/22](#).

1.5 In mobile, we secured commitments from all major mobile providers (apart from Three) to apply a discount to the monthly price paid by their bundled handset and airtime customers who were (or would become) out-of-contract. These commitments are intended to remove or reduce the level of overpayment relative to SIM-only customers among bundled customers who have already paid for their handsets. The level and approach each provider took to these discounts varied. These discounts came into effect from February 2020.

## Our findings

### Broadband customers are more engaged since end-of-contract notifications came into effect

1.6 The number of broadband customers who were out-of-contract in 2020 fell by around 1.3 million from the previous year. In September 2020, 35% (or 7.4 million customers) were out of contract compared to 40% (or 8.7 million customers) in September 2019. This reduction was largely driven by people re-contracting with their existing provider, rather than switching. There continues to be variation between providers in terms of the contract status of their customers.



1.7 We measure engagement by assessing the extent to which people re-contract with their current provider, or switch to an alternative provider, rather than remaining out-of-contract. Engagement among broadband customers whose contracts ended in September 2020 was significantly higher compared to customers in the same position in July 2019, prior to the introduction of ECNs (62% in 2020 up from 47% in 2019). This appears to indicate that ECNs are having a positive impact on customer engagement.

1.8 There was also an increase in engagement among broadband customers who were already out-of-contract from 10% in 2019 to 17% in 2020. Relatively few out-of-contract customers had received an ABTN by September 2020, as most providers only began sending these towards the end of the implementation period for ABTNs which was February 2021. It is therefore difficult to evaluate the impact of ABTNs at this stage. The increase in engagement among these customers may reflect increased promotional activity by providers seeking to re-contract their existing out-of-contract customers, or a greater inclination among out-of-contract customers to get back in contract, perhaps in order to get on top of household finances during the pandemic. Engagement among vulnerable out-of-contract broadband customers increased at broadly the same rate as out-of-contract

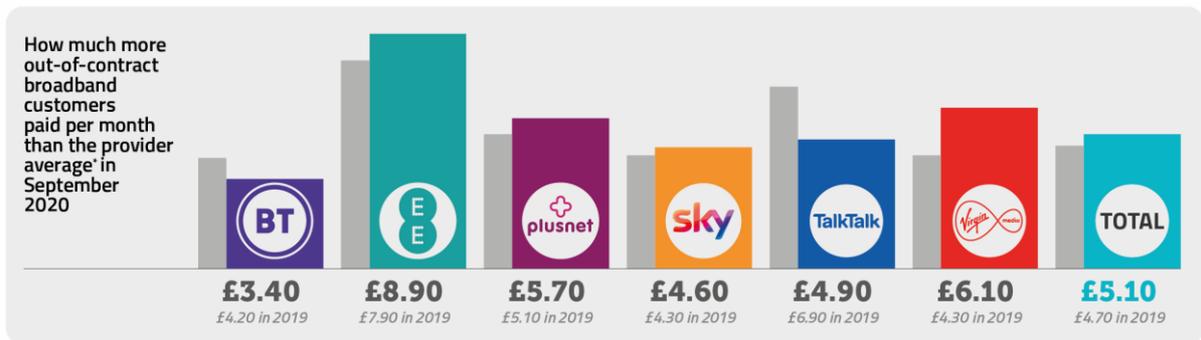
broadband customers overall. As the process of out-of-contract customers receiving ABTNs progresses, we expect engagement levels to further increase over time.

### **We found no systematic difference in engagement driven by the timing, method or content of broadband ECNs**

- 1.9 Providers must comply with our rules on ECNs. However, they have some discretion over their exact method and implementation. We expect providers to send ECNs to their customers between 40 and 10 days before the end date of their contract. We found that some providers sent their ECNs nearer to customer's contract end dates than others. They overwhelmingly chose to send ECNs by email, although some providers sent some ECNs by letter.
- 1.10 Our rules and guidance require providers to inform customers about the best tariffs available, as well as discounts available to new customers (so that customers are made aware of the benefits of switching). Virgin Media is the only major provider to offer its deepest discounts to new customers only, rather than to existing customers as well. Virgin Media was therefore the only major provider to show customers offers that were generally unavailable to them. Providers can choose to include upgrade offers at their discretion. We found that providers took different approaches in the extent to which they showed customers upgrade offers (alongside the price they would pay if they did nothing, and a re-contracting offer similar to their current deal).
- 1.11 We found that there was no systematic difference in customer engagement, relative to each provider's average levels of engagement, depending on the timing, method or content of the ECNs they sent. In addition, our research amongst broadband (and mobile) customers indicates that customers find ECNs helpful. Around two thirds of customers who were sent an ECN recalled receiving one, while the vast majority (90%) of those who recalled receiving an ECN agreed that they had found it helpful.

### **The average price differential paid by vulnerable customers reduced significantly from 2019 to 2020, while the overall price differential increased slightly**

- 1.12 The additional monthly amount that out-of-contract customers pay compared to the average price in September 2020 was £5.10, compared to £4.70 in September 2019. Prices paid by in-contract customers continued to fall from 2019 to 2020, while prices paid by out-of-contract customers have remained largely stable over the last few years. The increase in the monthly price differential therefore in part reflects lower prices for new customers rather than an increase in the prices paid by out-of-contract customers, and from that perspective is less concerning to us than would be the case if out-of-contract prices were significantly increasing. As with the proportion of customers out-of-contract, there is considerable variation between providers in terms of their pricing practices.



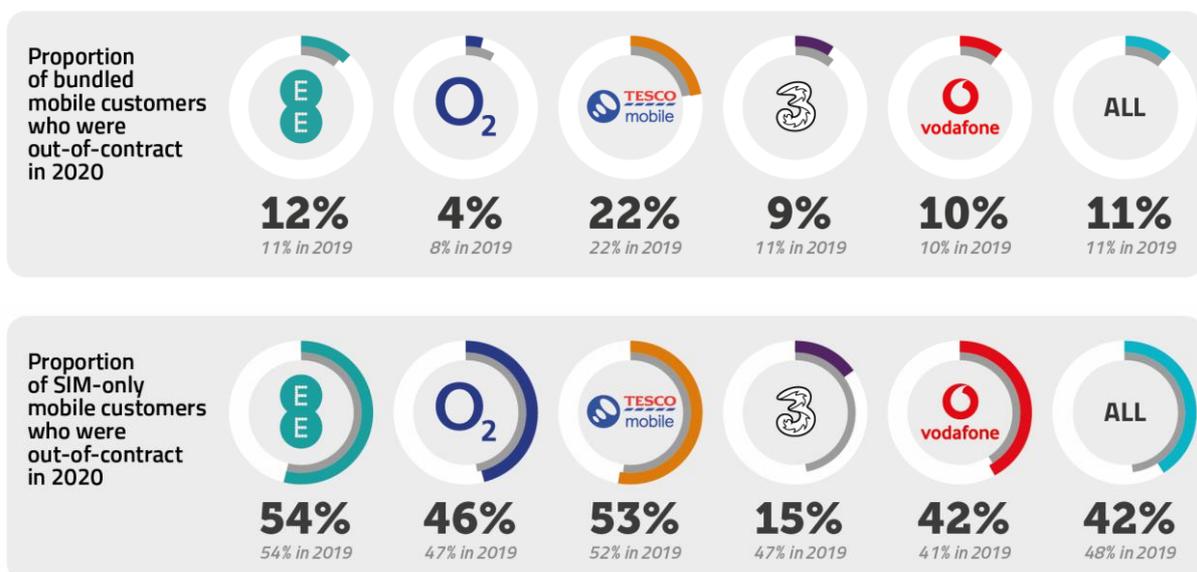
<sup>1</sup>To calculate this, individual OOC customers' prices are compared to the average price of a similar product of that provider. These individual differentials are then averaged over all OOC customers of that provider.

- 1.13 The fact that customers pay different prices depending on their contract status is not in itself a concern, and often occurs in competitive markets. Customers who shop around can take advantage of discounts offered to encourage switching or to support the take-up of new services. More switching by customers also has the added benefit of increasing the competitive pressure on providers which can lead to more investment in new products and better value offers, as providers seek to attract and retain customers. While we would expect to see providers continue to discount new services, and therefore to see some differences between the prices different customers pay, we do have concerns about the impact of high out-of-contract prices where customers are unaware of these differences or have difficulties engaging to secure a better deal. This is of particular concern with respect to vulnerable customers.
- 1.14 We found there was a large reduction in the monthly price differential paid by customers identified by their provider as vulnerable, from £4.40 to £2.30. This indicates that the commitments secured by Ofcom are having a positive impact for many vulnerable customers. We would expect the differential paid by vulnerable out-of-contract customers to continue to reduce over time as the impact of the commitments continues to take effect, and as identification of vulnerable customers and recording of their needs continues to improve.



## The proportion of mobile customers who are out-of-contract remained broadly stable from 2019 to 2020, but there is some evidence that engagement is now increasing

1.15 The proportion of pay-monthly mobile customers who are out-of-contract has historically been lower than for other communications services, indicating higher levels of engagement among mobile customers. In 2020, 25% of mobile customers (bundled handset and airtime contracts and SIM-only combined) were out of contract compared to 27% in 2019. This figure has been broadly stable in recent years, but there is some evidence that engagement is now increasing. Engagement is particularly high for people on bundled contracts, with only 11% of bundled customers out of contract from 2018 to 2020. By contrast, 42% of SIM-only customers were out of contract in 2020. This may reflect the fact that SIM-only customers may be financially better off remaining out-of-contract compared to taking out a new contract. As shown below, the proportion of customers who are out-of-contract varies by provider, and by the type of mobile contract that customers take.



1.16 There has been an increase in engagement among mobile customers since end-of-contract notifications came into effect. Engagement among bundled customers approaching the end of their contract increased from 70% in 2019 to 76% in 2020, while for SIM-only customers approaching the end of their contract engagement increased from 27% to 32%. Engagement among both bundled and SIM-only customers who were already out of contract remained relatively low from 2019 to 2020, which may reflect the fact that some mobile customers wouldn't save by switching. As more customers receive annual best tariff notifications, we would expect engagement among out-of-contract customers to increase.

**The overall annual aggregate overpayment by bundled out-of-contact customers has decreased significantly since the commitments came into effect**



- 1.17 The total amount by which bundled out-of-contact customers overpay relative to comparable SIM-only prices has reduced significantly from £182m in 2018 to £83m in 2020 since the commitments we secured came into effect. This likely reflects both the pricing commitments but also the reduction in the total number of bundled customers who were out of contract as well as a reduction in the amount of time that these customers spend out of contract on average.
- 1.18 There has been a significant reduction in the proportion of pay-monthly mobile customers on bundled handset and airtime contracts in recent years, from 74% in 2014 to just 39% in 2020.<sup>2</sup> In contrast, SIM-only contracts have grown significantly in popularity over the same period, while split contracts are also becoming more popular with more providers offering these market propositions such as Virgin Media O2, Tesco, Sky and Vodafone. Some providers have also now stopped selling bundled contracts altogether. As a result, we anticipate that aggregate overpayment among bundled out-of-contact customers will continue to decline over time, as ECNs and ABTNs become more established and the market moves away from this type of contractual arrangement for handsets and airtime.

## Next Steps

- 1.19 We welcome the increase in customer engagement since ECNs came into effect, especially among broadband customers. As a result, millions of customers who were previously out

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<sup>2</sup> 50% of pay-monthly mobile customers were on bundled handset and airtime contracts in 2018.

of contract are now in contract and likely to be paying lower prices as a result. There is potential for further improvements in customer engagement over time as more customers receive ECNs and ABTNs. Our customer engagement analysis covers the period from 2019 to 2020, during which the Covid-19 pandemic created unprecedented challenges for customers and providers. We are mindful that customer behaviour may have been atypical during this time. We will continue to monitor customer engagement indicators in future and may further review the impact of ECNs and ABTNs as they become more widely established. We will also continue to monitor providers' approaches on ECNs and ABTNs and their compliance with the rules.

- 1.20 In addition, we are planning to conduct an ex-post evaluation of broadband ECNs using econometric techniques to provide further insight into their effectiveness. This is due to be published in 2022 and will build on the findings set out in this report.
- 1.21 We also welcome the significant reduction in the impact of price differentials on vulnerable broadband customers, and the significant reduction in overpayment by bundled out-of-contract mobile customers since the commitments we secured took effect. On the basis of the progress that has been made, we do not consider that further intervention from Ofcom is necessary at this time.
- 1.22 While prices continued to fall from 2019 to 2020, several providers introduced above-inflation price increases in 2021 for new and some existing customers. Several providers have said that these price increases, including those at the mid-contract point, reflect the investment needed to support growing demand, and that they are necessary to enable them to continue investing in their networks, products and services. We recognise that it will require significant investment from private companies to upgrade the UK's networks, so they are fit for the future, and that this may lead to price increases for consumers in the short-term. Our regulatory approach supports investment by encouraging competition between different networks where viable, which will provide high quality services, choice and affordable broadband for consumers throughout the UK.<sup>3</sup>
- 1.23 Given wider pressures on household finances across a range of essential services, we strongly encourage providers to consider the wider impact on the cost of living of further above-inflation price increases in 2022, especially for in-contract customers for whom such price increases may be harder to avoid. Ofcom's affordability research has established that a significant number of UK households face financial difficulties in paying for their communications services. Around 2 million households face affordability issues with broadband and/or smartphone services, or do not have internet at home partly due to

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<sup>3</sup> See Ofcom, 18 March 2021, [Promoting competition and investment in fibre networks: Wholesale Fixed Telecoms Market Review 2021-26](#) which sets out our decision regarding the regulation of the fixed telecoms market to promote competition and investment in gigabit-capable networks.

cost.<sup>4</sup> Further above-inflation price rises could exacerbate affordability problems for some consumers. We will continue to monitor pricing trends and outcomes for customers and will report on these regularly via our pricing trends report.

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<sup>4</sup> This is based on households who reported an affordability issue in the month before they were surveyed. The error range around the 2 million estimate is +/- 500,000 households. This population estimate combines monthly data (April 2021) from the Covid-19 Affordability Tracker and data from the Technology Tracker 2021. See Ofcom, 2021, [Affordability of communications services: Summary of Findings](#) for further information.

## 2. Introduction and background

### Customers should get a fair deal when they buy communications services

- 2.1 We believe that customers should get a fair deal for their communication services. We want people to shop around with confidence, make informed choices, switch easily and for markets to work well so that people can do just that. We also want to make sure customers, particularly those who are vulnerable, are treated fairly.<sup>5</sup>
- 2.2 Competition and innovation in the market have resulted in lower prices, better services, wider coverage and improved reliability in recent years. In the broadband market, there is significant choice for customers which enables them to choose from a number of providers and packages to suit their needs. Similarly, in the UK's mobile market there are a range of different options for how customers can buy airtime, a handset, or both. This variety offers customers a lot of choice, and there are a range of good deals on offer.
- 2.3 However, we have had concerns that providers do not always make it easy for customers to get the best deal for their needs, meaning that some customers pay more than they need to. This is particularly concerning when it affects vulnerable people who may find it harder to engage. So we have taken action to help ensure customers can shop around with confidence, make informed choices, and ultimately get the right deal for them.
- 2.4 We introduced new rules requiring providers to tell their customers about the services currently provided and the price paid when their contracts are coming to an end, and on a regular basis after that. These rules came into effect in February 2020. We have also secured commitments from most major broadband and mobile providers to reduce prices for certain groups of customers at risk of paying too much. The purpose of this report is to assess the initial impact of these measures in helping customers get better deals.

### We have a longstanding commitment to tackling harmful practices that make it difficult for consumers to get better deals

- 2.5 We have been aware for some time that when customers do not engage with the market, they often pay higher prices. In our 2017 Pricing Report, we noted that less engaged consumers may face higher prices, especially in the broadband market, as providers target their best offers at more active or engaged consumers.<sup>6</sup>
- 2.6 We took action in response to these findings, launching a programme of work with the aim of ensuring that communications markets work effectively for customers.<sup>7</sup> Particularly, we

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<sup>5</sup> Ofcom, March 2021. [Ofcom's plan of work 2021/22: Making communications work for everyone](#)

<sup>6</sup> Ofcom, March 2017. [Pricing trends for communications services in the UK](#)

<sup>7</sup> Ofcom, July 2017. [Helping consumers to engage in communications markets: Call for Inputs.](#)

sought to understand how we could further empower consumers and help them to better engage, why some consumers were not shopping around for better deals and what could be done to address this.

- 2.7 We also carried out consumer research to help us better understand why some consumers do not engage fully with communications markets. We found that some customers lack confidence, knowledge and understanding of the communications services they buy.<sup>8</sup> Our research suggested engagement in communications markets is reactive, rather than proactive, for all but the most engaged consumers. Many people did not know the status of their contract, some were unclear about future changes, and people often did not understand their options at the end of their minimum contract period. We found that millions of customers were outside their minimum contract period and many were paying more than they needed to.
- 2.8 In the broadband market, we found that differential pricing tends to occur in relation to a consumer's contractual status with their provider (i.e. whether they are a new customer, have re-contracted, or are out-of-contract). Customers who are in their first contract with a provider tend to benefit from introductory discounts, whereas those who are not, tend to pay higher prices. We found that around 9 million customers were on deals with an automatic price rise at the end of the minimum contract period.<sup>9</sup>
- 2.9 The situation was different in the mobile market. In contrast to broadband, we found that mobile customers' out of contract spend was on average lower than that of mobile customers who were within their minimum contract period. However, we noted that consumers on combined airtime and handset deals tended to pay the same price after the end of their minimum contract period, meaning they could be paying a significantly higher price than if they switched to a SIM-only deal.
- 2.10 Notwithstanding the differences between types of communications services, we concluded that a lack of information meant that many consumers were paying higher prices than they could be. To ensure that all customers had access to better information on which to base their decisions, we consulted on plans to introduce end-of-contract notifications, as well as a one-off notification to customers already outside their minimum contract period.<sup>10</sup> In order for customers to make informed decisions about their services, we considered it was necessary for them to be informed of when the minimum contract period ended (meaning they could leave their current deal or provider without penalty), and what the implications would be of remaining on their existing deal, particularly changes to prices and services. We said that an appropriate time for customers to get this information would be when they were at or near the end of their minimum contract period, and that they should get it

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<sup>8</sup> Ofcom, April 2018. [\*Helping consumers to engage in communications markets – Update on next steps.\*](#)

<sup>9</sup> Ofcom, July 2018. [\*Helping consumers to engage in communications markets: Consultation on end-of-contract and out-of-contract notifications\*](#)

<sup>10</sup> Ofcom, July 2018. [\*Helping consumers to engage in communications markets: Consultation on end-of-contract and out-of-contract notifications\*](#)

automatically rather than having to seek it out. For customers already out-of-contract, we said they should receive this information as soon as possible.

- 2.11 We published a further consultation on strengthened proposals for end-of-contract notifications (ECNs) and annual best tariff notifications (ABTNs) in December 2018, in order to reflect requirements under European legislation.<sup>11</sup> We also proposed that providers should include details of the best tariffs that the provider offered. We additionally proposed that out of contract customers should get annual best tariff advice, not just a one-off communication.

## **We introduced a requirement on providers to send their customers end-of-contract notifications and annual best tariff advice**

- 2.12 In May 2019 we introduced new requirements on providers to send ECNs and ABTNs to their residential and business customers.<sup>12</sup> Under our ECN requirements, providers must tell their residential customers about any changes to their price and services at the end of their minimum contract periods, and the best tariffs available from their provider, as well as discounts available to new customers (so that customers are made aware of the benefits of switching). The notification also has to include at least one SIM-only contract for customers on bundled mobile handset and airtime contracts. Business customers must also receive a notification to inform them of the end of their minimum contract period and how they may terminate the contract.<sup>13</sup>
- 2.13 In addition, all customers who remain out-of-contract must now be given information about their contract and their provider’s best tariffs at least annually. This means they are told about the best tariffs for the services they buy and can see if they are on the best deal.
- 2.14 These requirements came into effect from February 2020. We have gathered data from providers about residential customers whose contracts ended between September and November 2020 to understand the initial impact of ECNs on customer engagement. ABTNs

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<sup>11</sup> Ofcom, December 2018. [Helping consumers get better deals: Consultation on end-of-contract and annual best tariff notifications, and proposed scope for a review of pricing practices in fixed broadband](#)

<sup>12</sup> Our rules on ECNs and ABTNs apply to both residential and business customers, although the requirements on providers in relation to each are different. In this report, we focus only on residential customers (which in some cases may include small companies who use a service aimed at residential customers for business purposes). Therefore, we use the term ‘customers’ in relation to residential customers throughout this report.

<sup>13</sup> For a full description of all our rules and guidance regarding the content, timing and format of ECNs and ABTNs, see: Ofcom, May 2019, [Helping consumers get better deals: Statement on end-of-contract notifications and annual best tariff information](#) which explains our decisions and expectations for ECNs and ABTNs; Ofcom, 4 January 2021, [General Conditions of Entitlement Unofficial consolidated version](#) which includes General Condition C1.13 which requires ECNs and ABTNs to be sent “in a timely manner before the end of the Subscriber’s fixed commitment period”; and [Ofcom’s Guidance under General Condition C1 – contract requirements](#), which provides guidance that in order to comply with General Condition C1.13, sending in a “timely manner” means that we expect providers to send notifications between 10 and 40 days before the end of the fixed commitment period. Further requirements regarding ECNs and ABTNs including details of other contracts taken as part of a bundle take effect from 17 December 2021 – see Ofcom, October 2021, [Implementation of the European Electronic Communications Code \(EECC\)](#) for an overview.

were sent by most providers for the first time from February 2021, so most out of contract customers had not yet received one at the time we acquired data from providers.<sup>14</sup>

## **We also sought commitments from major providers to address particular concerns in broadband and mobile**

### **Broadband providers committed to ensuring their vulnerable customers were protected from high out-of-contract prices**

- 2.15 In introducing ECNs and ABTNs, we took the view that these notifications would make a significant difference in increasing engagement and helping customers to get better deals. But we also judged that it was necessary to consider what more may be needed, including looking at whether further targeted interventions were necessary, particularly to protect those consumers who are vulnerable.
- 2.16 We were concerned about the impact that high out-of-contract broadband prices could have on people who struggle to engage. While it is common in many competitive markets for customers to pay different prices for an equivalent or similar service, we were concerned where the differential paid by out-of-contract customers is particularly high, and where it disproportionately affects more vulnerable people.
- 2.17 In December 2018, we launched a review to examine the extent to which price differentials in the fixed broadband market produced harmful effects for consumers, who was affected, and whether there were any additional targeted actions we should take to protect broadband customers. This review had a particular focus on vulnerable people.<sup>15</sup>
- 2.18 We analysed over 20 million customer records to get a detailed understanding of prices paid by broadband customers, and in September 2019 we published our detailed analysis of broadband price differentials.<sup>16</sup> This showed that around 41% of broadband customers – 8.8 million – were out-of-contract. We found that those who engage, either by signing a new contract with their provider (re-contracting) or switching to a new provider, got better deals than those who remained out-of-contract.
- 2.19 We found that prices paid by vulnerable customers revealed a mixed picture. While some groups of potentially vulnerable customers were more likely than average to be out-of-contract, others, including people on lower incomes, were less likely to be so. Nonetheless, a considerable proportion (around 43%) of vulnerable customers were out-of-contract and paid higher prices as a result.

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<sup>14</sup> We gathered data relating to the periods 1 July to 30 September 2019 and 1 September to 30 November 2020 for comparative purposes. Customers started to receive ECNs from February 2020.

<sup>15</sup> Ofcom, December 2018. [\*Helping consumers get better deals: Consultation on end-of-contract and annual best tariff notifications, and proposed scope for a review of pricing practices in fixed broadband\*](#)

<sup>16</sup> Ofcom, September 2019. [\*Helping consumers get better deals: A review of pricing practices in fixed broadband \(initial conclusions\)\*](#)

- 2.20 We updated our work on broadband pricing and published a further report in July 2020.<sup>17</sup> At that time, the data showed that around 40% of broadband customers were out-of-contract. We found that these customers paid around £4.70 more per month than their provider's average price for their service. Vulnerable customers paid a lower price differential than the average for all out-of-contract customers (£3.90 compared to £4.70), however, they tended to stay out-of-contract for longer.<sup>18</sup>
- 2.21 We estimated that the impact of price differentials on all out-of-contract broadband customers was just under £500m per year, and for vulnerable out-of-contract customers it was just under £80m per year. As we made clear in our July 2020 broadband pricing review, customers paying different prices depending on their contract status is not in itself a concern, and often occurs in competitive markets. Moreover, customers who shop around can take advantage of discounts offered to encourage switching or to support the take-up of new services.<sup>19</sup>
- 2.22 More switching by customers also has the added benefit of increasing the competitive pressure on providers which can lead to more investment in new products and better value offers, as providers seek to attract and retain customers. These positive interactions between competition and investment in broadband networks are becoming increasingly important in order to meet the growing demand for gigabit-capable broadband services. Both Ofcom and the Government have a strategic aim to ensure everyone in the UK can access fast and reliable broadband services and see competition as important in delivering the new investment that this requires.<sup>20</sup> As well as encouraging switching between providers, discounting can be a useful tool to encourage take-up of new services.<sup>21</sup>
- 2.23 As we made clear in our July 2020 review, while we would expect to see providers continue to discount new services, and therefore to see some differences between the prices different customers pay, we do have concerns about the impact of high out-of-contract prices where customers are unaware of these differences or have difficulties engaging to secure a better deal. This is of particular concern with respect to vulnerable customers.
- 2.24 Our research over time shows that vulnerable customers can face additional challenges that make interacting with their provider more difficult. These challenges can hinder their ability to get a better deal. In July 2020, we therefore secured commitments from the main

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<sup>17</sup> Ofcom, July 2020. [Helping consumers get better deals: Review of pricing practices in fixed broadband \(update\)](#)

<sup>18</sup> 44% of vulnerable customers have been out-of-contract for at least two years compared to 37% for all customers.

<sup>19</sup> Searching for a new deal and switching providers takes time and effort by the customer and can be encouraged if there is likely to be a reward for doing so. In September 2021, we confirmed our decision to require providers to develop and operate a new 'One Touch Switch' process for all residential customers who switch landline and broadband services. This new process will replace the existing arrangements from April 2023.

<sup>20</sup> See Ofcom, 18 March 2021, [Promoting competition and investment in fibre networks: Wholesale Fixed Telecoms Market Review 2021-26](#) which sets out our decision regarding the regulation of the fixed telecoms market to promote competition and investment in gigabit-capable networks, and Prime Minister's Office, 11 May 2021, [The Queen's Speech](#), page 6.

<sup>21</sup> See for example, Openreach's 'GEA discount' scheme offering providers significant discounts (which could potentially be passed on to customers) contingent on achieving targets for increasing their volumes of FTTC connections, over a five-year period: See Openreach, [Special Offer GEA Volume Agreement – Tiers Structure](#)

broadband providers, covering nearly 90% of the market. We considered that these commitments would, among other things, help to protect vulnerable customers.

- 2.25 These providers introduced protections for customers who they know are vulnerable, moving those who are paying higher out-of-contract prices onto better prices, usually through annual account reviews. These protections are summarised below:
- BT gave a price reduction to its vulnerable customers who were out-of-contract and paying more than £8 per month above the new customer price, to match those paid by new customers for the closest equivalent products. BT also committed to freeze prices for all customers who are flagged as vulnerable, and to conduct further annual reviews with vulnerable customers to discuss whether they are on the best deal for their needs.
  - EE committed to giving a one-off price reduction to its vulnerable customers who were out-of-contract and paying a price higher than that available to new customers. It reduced the price for these customers to match the best price available to new customers. EE also committed to freeze prices for all customers who are flagged as vulnerable and conducting further annual reviews with vulnerable customers to discuss whether they are on the best deal for their needs.
  - Plusnet committed to proactively engaging with vulnerable out-of-contract customers with a view to discussing their services and getting them back into contract. For any vulnerable customers that do not respond, Plusnet agreed to immediately reduce their price to the equivalent new customer price.
  - Sky committed to conducting an annual price review for vulnerable customers who were out-of-contract to establish whether they were on the best tariff available to them, given their contract status. If they were not, Sky agreed to automatically move them onto the best out-of-contract price available to them for their product.
  - TalkTalk had already conducted its first annual price review for all out-of-contract vulnerable customers and offered them access to the best new customer prices. As a result, it already automatically moves customers onto these best prices where they do not respond.
  - Virgin Media committed to conducting annual price reviews for vulnerable customers to help them get onto the best deal for their needs. If customers do not respond, Virgin Media reduces the price to the best available to that customer as set out in annual pricing notifications. This will usually be the current advertised out-of-contract price for that product.
- 2.26 These commitments came into effect at various points throughout 2019 and 2020. At the point that we obtained data from providers for the purpose of carrying out our analysis for this report, some of these commitments had only just been implemented and others were yet to take effect.

## And we secured discounts from most major mobile providers to deliver benefits to out-of-contract bundled customers

- 2.27 In mobile, our particular concerns were to do with bundled contracts, where customers pay a single price for their handset and airtime combined, and the price generally stays the same at the end of the contract despite the customer having typically paid for the handset. This can mean that customers who do not take action at the end of their minimum contract period risk staying on a deal where they are paying more than they could be for a comparable SIM-only contract.
- 2.28 In September 2018, we set out our initial concerns about bundled mobile contracts including the price customers were continuing to pay once out of contract, and the lack of transparency around these contracts.
- 2.29 In our 2019 mobile handset review we set out a detailed analysis of this issue. We found that around 1.4 million customers on bundled contracts were overpaying, on average, just under £11 per month more than if they switched to a comparable SIM-only deal. This amounted to a total figure of around £182m a year across all these customers.<sup>22</sup> We considered that while ECNs would increase engagement and help customers avoid overpaying in future, additional measures were required for bundled out-of-contract customers.
- 2.30 To address our concerns, we secured commitments from all major mobile providers (apart from Three) to apply a discount to the monthly price paid by their bundled customers that were (or would become) out-of-contract. The level and approach each provider took to these discounts varied, taking account of the different levels of savings available to their out-of-contract customers if they switched to a similar SIM-only tariff. The commitments we agreed were:<sup>23</sup>
- EE applied a 10% discount to the monthly charge of all customers on its bundled contracts after they have been out-of-contract for three months.
  - O2 (for its direct customers) reduced the monthly price of its out-of-contract customers to the equivalent airtime-only tariff available at the time they took the initial contract, ensuring no customer is worse-off after the migration.<sup>24</sup>
  - Tesco Mobile reduced the monthly payments of its bundled out-of-contract customers to ensure they are on the best available airtime tariffs.
  - Virgin Mobile migrated all of its customers on legacy bundled contracts to the equivalent SIM-only tariff from the point they go out-of-contract.

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<sup>22</sup> Ofcom, July 2019. [Helping consumers to get better deals in communications markets: mobile handsets](#), page 4 paragraph 1.4.

<sup>23</sup> Ofcom, January 2020. [Making sure customers are treated fairly: Progress update on Ofcom's work to ensure fairness for customers](#)

<sup>24</sup> O2 also committed to initiate discussions with its indirect sales channels to find a solution for the customers acquired through these channels. In April 2020, O2 decided to migrate customers acquired indirectly via Carphone Warehouse whose minimum contract term has expired, onto 30-day airtime only contracts.

- Vodafone applied a £5 discount to the monthly charge of all customers on its bundled contracts after they have been out-of-contract for three months.<sup>25</sup>
- 2.31 These discounts came into effect from February 2020 for most providers.
- 2.32 In addition to the commitments we secured, we also introduced new transparency requirements for providers that apply at the point of sale regarding the implications of entering into contract, including a contract that contains bundles. Under these rules, which will come into effect in June 2022, customers will be given a short summary of the main contract terms, to help them make an informed decision about the services they are choosing, and a more detailed set of contract information, in writing, before they are tied into that contract.<sup>26</sup>
- 2.33 Specifically for mobile bundled contracts, this means that, from June 2022, providers will have to set out the individual price elements of a bundle, if it sells these elements as a separate stand-alone purchase. For example, for a bundled mobile contract the provider will have to set out the total price of the handset if it were to be purchased separately. If the provider does not sell individual elements of the bundle on a stand-alone basis, it does not need to set out the price of those particular elements.
- 2.34 Additionally, we also sought to strengthen the rules regarding some types of split contracts, specifically those split contracts which we termed Linked Split Contracts with longer handset contract durations (of up to 36 months).<sup>27</sup> We set out concerns that, where such linked split contracts had the effect of tying customers into their airtime contract for longer than 24 months (the maximum length of time set in our General Conditions C1.4), they could act as a disincentive to switch.
- 2.35 In October 2020 we confirmed changes to our General Conditions on contract duration as part of our implementation of bundling provisions in the European Electronic Communications Code ('EECC'). The changes will mean that, from 17 December this year, where there is a link between an airtime and handset contract, it will be defined as a bundle and therefore subject to a maximum contract duration of 24 months. Following these changes, providers will still be able to offer handset contracts longer than 24 months, so long as they are not linked to the airtime contract such that they become a 'bundle' under our new General Conditions.

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<sup>25</sup> Vodafone's commitment applies only to customers whose monthly price for their bundled contract is £11 or more.

<sup>26</sup> The introduction of these new requirements formed part of our implementation of the European Electronic Communications Code. See Ofcom, October 2020 [Fair treatment and easier switching for broadband and mobile customers – Implementation of the New European Electronic Communications Code](#) section 5 and [guidance](#) for more information.

<sup>27</sup> Split contracts are where the customer purchases both an airtime tariff and a handset under two separate contracts and the monthly price to the customer is separated into prices for the airtime and handset. These split contracts can be 'linked' whereby if the customer ends their airtime contract before the minimum contract period of the handset agreement, the customer must pay off the rest of the handset in a lump sum.

## We have been monitoring the effectiveness of our interventions

- 2.36 Taken together, ECNs, ABTNs and the commitments we secured from mobile and broadband providers constitute a comprehensive package of protections to help customers get better deals.<sup>28</sup>
- 2.37 We committed to monitoring consumer outcomes in the market closely, as these measures came into effect. In order to measure their success, we said we would monitor and report on a range of metrics, including:
- The impact of the **end-of-contract notifications and annual best tariff advice** providers send their customers. This will involve collecting information from providers and conducting consumer research on engagement with, and the effectiveness of, ECNs and ABTNs.<sup>29</sup>
  - The proportion of **broadband** customers who are new, re-contracted and out-of-contract as well as the proportion of customers within each of those categories who are vulnerable.<sup>30</sup>
  - The development of the **mobile** market. In particular, we said we would look at the likely increase in the use of split contracts and declining use of bundles, as well as the effect of the relevant provider's price reductions.<sup>31</sup>
- 2.38 In setting out our assessment of these metrics, this document provides an analysis of the impact of the measures in addressing our concerns.
- 2.39 In addition to monitoring the impact of these measures, we also have a comprehensive price monitoring programme which examines pricing trends for residential phone, mobile, broadband and TV services in the UK. Our most recent pricing report, published in July 2021, found that the majority of consumers are able to benefit from a wide range of good value deals, although there is variation in pricing trends across communications services, with some services becoming cheaper and others more expensive.<sup>32</sup>
- 2.40 This report also noted that after years of falling prices across a range of communications services, leading providers introduced a series of above-inflation price increases for new and some existing customers at mid contract, in 2021. Several providers have said that these price increases reflect the investment needed to support growing demand, and that they are necessary to enable them to continue investing in their networks, products and

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<sup>28</sup> Our rules requiring greater transparency about contract terms before a customer signs a contract with a communications provider are also important in addressing our concerns in this area. These rules come into effect in June 2022, and hence do not form part of this report.

<sup>29</sup> Ofcom, May 2019, [Statement on end-of-contract notifications and annual best tariff](#), para 9.23-9.39

<sup>30</sup> Ofcom, July 2020, [Review of pricing practices in fixed broadband](#), Section 5, pages 46-53

<sup>31</sup> Ofcom, July 2019, [Helping consumers to get better deals in communications markets: mobile handsets](#), Pages 59-60, paragraphs 6.15-6.18

<sup>32</sup> Ofcom, July 2021. [Pricing trends in communications services in the UK](#).

services. These price increases had not come into effect at the point at which we acquired data from providers for the purposes of this report.

- 2.41 Separate work from Ofcom has established that a significant number of UK households already face affordability issues in paying for their communications services. Our evidence shows that around 2 million households face affordability issues with broadband and/or smartphone services, or do not have internet at home partly due to cost.<sup>33</sup> We are mindful that further above inflation price rises could exacerbate affordability problems, especially for households on low incomes. While targeted tariffs can provide an important safety net for households with the most acute affordability issues, take up is currently low. We encourage providers to show restraint when considering any further above inflation price rises to be implemented in 2022.

## This document

- 2.42 The rest of this document is set out as follows:
- Section 3 sets out the extent to which customer engagement has improved in the broadband market, along with an assessment of the impact of price differentials on out-of-contract customers, following our interventions
  - Section 4 sets out the extent to which customer engagement has improved in the mobile market, along with an assessment of the extent of overpayment among bundled out-of-contract customers, following our interventions
  - Section 5 sets out more detailed findings on the implementation of end-of-contract notifications, and the impact that different approaches by providers to timing, method and content had on customer engagement
  - Annex 1 describes the methodology that underpins the consumer research described in chapter 5.

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<sup>33</sup> This is based on households who reported an affordability issue in the month before they were surveyed. The error range around the 2 million estimate is +/- 500,000 households. This population estimate combines monthly data (April 2021) from the Covid-19 Affordability Tracker and data from the Technology Tracker 2021. See Ofcom, July 2021, [Affordability of communications services: Summary of Findings](#) for further information.

## 3. Broadband

- 3.1 As set out in Section 2, our July 2020 broadband pricing review found that that around 40% of broadband customers were out-of-contract and paying around £4.70 more per month than their provider's average price for their service. Vulnerable customers paid a lower price differential than the average for all out-of-contract customers (£3.90 compared to £4.70), however, they tended to stay out-of-contract for longer.<sup>34</sup>
- 3.2 We estimated that the impact of price differentials on all out-of-contract broadband customers was just under £500m per year, and for vulnerable out-of-contract customers it was just under £80m per year.
- 3.3 In this section, we set out the key findings from our analysis of over 21 million customer records relating to the period from September to November 2020, provided to us by the UK's main broadband providers.<sup>35</sup> We first report on outcomes for all customers, then outcomes for customers who are potentially vulnerable.
- 3.4 We begin with an assessment of the extent to which consumer engagement has changed since 2019, prior to the introduction of end-of-contract notifications.<sup>36</sup> Additionally, we assess developments in the prices paid by broadband customers including the impact of price differential practices on out-of-contract customers, especially vulnerable people. This analysis allows for some initial observations to be drawn on the extent to which customer engagement has improved since we introduced measures to help customers get better deals. In Chapter 5, we explore the impact of end-of-contract notifications for broadband customers in further depth.

### Key findings

In summary, we found that:

- **There has been a positive increase in engagement among broadband customers.** In 2020, 35% of broadband customers were out-of-contract, compared to 40% in 2019. This amounts to a reduction in the number of out-of-contract customers of over one million people.
- **Most major providers have seen a reduction in the proportion of their customers who are out-of-contract.** All major providers except TalkTalk saw a reduction in the proportion of their customers who were out-of-contract in 2020.

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<sup>34</sup> In this document we refer to people whose circumstances have or may make them vulnerable as 'vulnerable customers'. We recognise that organisations use a range of different terminology and some people might not like to be labelled as a vulnerable customer. However, the term is well-recognised among communications providers and allows us to discuss the topic openly and clearly, so we can seek improvements for customers in the communications sector.

<sup>35</sup> We obtained information from BT, EE, Plusnet, Sky, TalkTalk and Virgin Media.

<sup>36</sup> We collected data from providers covering the comparable period from July to September 2019.

- **Broadband customers appear to be more engaged since our rules on end-of-contract notifications came into effect.** Engagement among customers whose contracts ended in September 2020 was significantly higher compared to customers in the same position in July 2019, prior to the introduction of ECNs (62% in 2020 up from 47% in 2019). There was a similar increase in engagement for vulnerable customers.
- **There was an increase in engagement among those who were already out-of-contract from 2019 to 2020, although the majority remained out-of-contract.** Seventeen percent of customers who were already out-of-contract on 1 September 2020 engaged in the subsequent 90 day period, compared to 10% of out-of-contract customers who engaged in the previous year.<sup>37</sup> There was a similar increase in engagement for vulnerable customers.
- **The amount out-of-contract customers pay compared to the average has slightly increased since 2019, in part due to further discounting of new customer prices as well as a reduction in the number of out-of-contract customers.** The per person monthly price differential in 2020 was £5.10, which is slightly higher than the £4.70 differential we found in September 2019. There was considerable pricing variation between providers.
- **The impact of price differentials on some of the most vulnerable people has significantly reduced from 2019 to 2020, from £4.40 per month to £2.30 per month.** This indicates that the commitments secured by Ofcom to protect vulnerable customers from paying higher prices are having a positive impact.
- **The annual aggregate differential between out-of-contract (OOC) prices and average prices fell from £485m in 2019 to £451m in 2020.** We estimate the impact of price differentials on out-of-contract vulnerable customers was £76m in 2020.

## Broadband customers have become more engaged

### The proportion of broadband customers who are out-of-contract has fallen

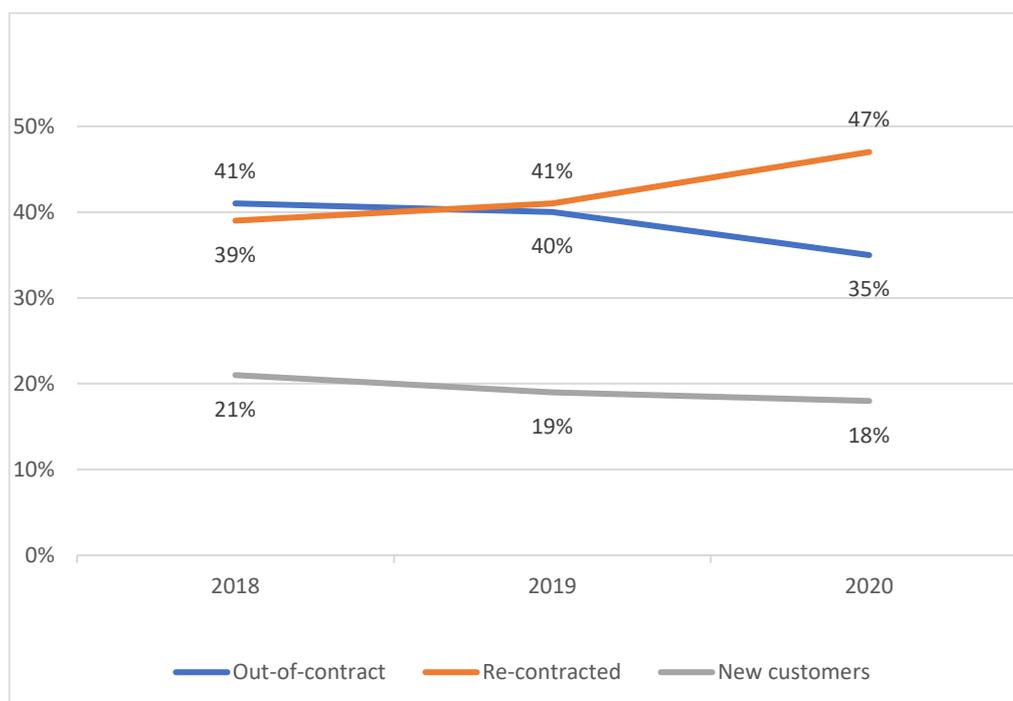
- 3.5 The number of customers who were out-of-contract in 2020 fell by around 1.3 million people from the previous year. In September 2020, 35% (or 7.4 million people) were out-of-contract compared to 40% (or 8.7 million people) in September 2019, amounting to a five-percentage point reduction. In November 2018, the comparable figure was 41% or 8.8m.
- 3.6 This reduction has largely been driven by people re-contracting with their existing provider, rather than switching. Consequently, re-contracted customers continue to account for the largest group of customers, increasing from around 41% in September 2019 to 47% in September 2020. The proportion of customers who were in their first contract with their provider (i.e. were new customers within their initial minimum commitment period) has

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<sup>37</sup> Within 90 days of 1 July 2019.

remained broadly stable at around 20% of customers over the same period. The distribution of customers by contract status is shown in Figure 3.1 below.

**Figure 3.1: Contract status of broadband customers, across providers, 2018 to 2020**



### Most major providers have seen a reduction in the proportion of their customers who are out-of-contract

3.7 As shown in Table 3.1 below, all major providers except TalkTalk saw a reduction in the proportion of their customers who were out-of-contract in 2020. Plusnet, Sky and Virgin Media saw the most significant decreases, albeit from higher starting points. Virgin Media continues to have the highest proportion of out-of-contract customers overall (52%; 20 percentage points more than the next highest provider). Although TalkTalk was the only provider to see an increase in the proportion of out-of-contract customers, it continues to have a lower than average proportion of customers who are in this position (29% versus 35% overall). All providers saw an increase in the proportion of their customers who re-contracted compared to 2019.

**Table 3.1: Contract status of broadband customers in September 2020, by provider**

	% of customers who were <u>out-of-contract</u>	% point change in % who were out-of-contract <sup>38</sup>	% of customers who were <u>re-contracted</u>	% of customers who were <u>new customers</u>
BT	28%	-2%	60%	12%

<sup>38</sup> Change since September 2019.

	<b>% of customers who were <u>out-of-contract</u></b>	<b><u>% point change in % who were out-of-contract</u><sup>38</sup></b>	<b>% of customers who were <u>re-contracted</u></b>	<b>% of customers who were <u>new customers</u></b>
EE	21%	-3%	53%	26%
Plusnet	31%	-11%	40%	28%
Sky	32%	-10%	46%	22%
TalkTalk	29%	+4%	51%	20%
Virgin Media	52%	-9%	33%	15%
<b>Total</b>	<b>35%</b>	<b>-5%</b>	<b>47%</b>	<b>18%</b>

3.8 Of those customers who were out-of-contract, around 40% had been out-of-contract for two or more years. This equates to around 3.1m customers which represents a slight increase compared to 2019, when 37% of out-of-contract customers had been out-of-contract for more than 2 years.<sup>39</sup>

3.9 Overall, it is encouraging to see a reduction in the proportion of customers who were out-of-contract from 2019 to 2020. We note that the pandemic significantly reduced many providers' call centre capacity in 2020 meaning that many customers had to wait longer on average to speak to an advisor than they did in 2019. Customers of Virgin Media and TalkTalk were particularly affected.<sup>40</sup> This may have been a contributory factor in the continuously high proportion of out-of-contract customers for Virgin Media, and the increase in the proportion of out-of-contract customers for TalkTalk.

### **Broadband customers appear to be more engaged since our rules on end-of-contract notifications came into effect**

3.10 In order to understand the extent to which engagement among broadband customers changed from 2019 to 2020, we obtained three consecutive months of customer level data from the UK's major broadband providers, covering the period September to November 2020. This is in addition to comparable data we already held relating to the period July to September 2019. This data allows us to observe any action taken by customers whose minimum contract period ended either in the weeks immediately before or after their contract ended. Specifically, we can identify whether customers:

- re-contracted with their existing provider;

<sup>39</sup> For 2019 we did not have reliable data on the duration that one provider's customers were out of contract for. This provider was therefore excluded from the calculations of long-term out-of-contract customers in 2019. This issue was resolved in 2020 and the provider is included in the 2020 data. If we exclude this provider from the 2020 calculations so that the proportions are comparable, the share of long-term out-of-contract customers remains 40%.

<sup>40</sup> Ofcom, May 2021. [Comparing customer service: mobile, home broadband and landline](#), page 16.

- switched to a different provider;<sup>41</sup> or
- remained out-of-contract.

3.11 We compare the extent to which customer engagement increased from 2019 to 2020 by assessing the extent to which customers whose contracts were due to end within the relevant period in each year re-contracted with their existing provider or switched to an alternative provider. Analysing three months of consecutive data allows us to understand, for those customers who engage, how near the customer’s contract end date that engagement occurs.<sup>42</sup>

3.12 We find that engagement among customers whose contracts ended in September 2020 was significantly higher compared to customers in the same position in July 2019, prior to the introduction of ECNs.<sup>43</sup> As shown in Table 3.2 below, just under half (47%) of customers whose contracts ended in July 2019 engaged in the three months prior to, or three months after, their contract ended. In September 2020, nearly two thirds (62%) of customers engaged within the equivalent period.<sup>44</sup> The significant majority of this engagement occurred during the period from 40 days before to 30 days after they went out-of-contract, which coincides with the period in which they would have received, and potentially acted on, an ECN. We view this as a positive indication that ECNs may be helping to drive greater levels of customer engagement.

**Table 3.2: Proportion of customers who engaged before or after their end-of-contract (EOC) date – July 2019 compared to September 2020**

	July 2019		September 2020	
	% of customers who engaged 40 days before to 30 days after EOC	Total % of customers who engaged*	% of customers who engaged 40 days before to 30 days after EOC	Total % of customers who engaged*
BT	31%	54%	40%	62%
EE	40%	61%	46%	68%
Plusnet	32%	44%	53%	72%
Sky	20%	33%	41%	59%

<sup>41</sup> Although we cannot be certain that all customers who left their provider switched to another provider, we believe that this is likely to have occurred in most cases. However, we recognise that some customers may leave their provider and cease to take a fixed broadband service at all.

<sup>42</sup> We also obtained contract history data, which allows us to observe any engagement in the months preceding a customer’s contract end date.

<sup>43</sup> We compare July 2019 to September 2020 because these are the months after which we have full three months of data in both datasets. Below we also compare September 2019 to September 2020, but due to the limitations of the 2019 dataset we only have one full month of data following September 2019.

<sup>44</sup> A small number of customers engage more than 89 days before the end of their contract; these are excluded from the calculations here and below.

	July 2019		September 2020	
	% of customers who engaged 40 days before to 30 days after EOC	Total % of customers who engaged*	% of customers who engaged 40 days before to 30 days after EOC	Total % of customers who engaged*
TalkTalk	49%	68%	49%	66%
Virgin Media	35%	43%	48%	59%
<b>Total</b>	<b>32%</b>	<b>47%</b>	<b>45%</b>	<b>62%</b>

\*Total percentage of customers who engaged includes any customer who re-contracted or switched from up to 89 days before to up to 90 days after their contract ended.

- 3.13 Plusnet and Sky saw the greatest increase in customer engagement, with engagement among Plusnet customers increasing from 44% in July 2019 to 72% in September 2020. Engagement among Sky customers increased from 33% to 59% while Virgin Media also saw a significant increase from 43% to 59%. BT and EE saw more modest increases, while TalkTalk saw a small reduction in engagement. BT, EE and TalkTalk continue to have levels of engagement which are equal to or greater than the average.
- 3.14 In order to provide a year-on-year comparator to help control for any seasonal effects, we have also compared engagement among customers whose contracts ended in September 2020 to customers in the same position in September 2019. This shows an even more pronounced increase in engagement. As shown in Table 3.3 below, less than a quarter (23%) of customers whose contracts ended in September 2019 engaged in the three months prior to, or one month after, their contract ended.<sup>45</sup> In September 2020, more than half (52%) of customers engaged within the equivalent period, either by re contracting or switching to another provider. We are encouraged to observe increases in engagement on this scale, particularly given that the majority of this engagement occurred in the period during which customers would have been sent, and been most likely to act on, an ECN.

**Table 3.3: Proportion of customers who engaged before or after their end-of-contract (EOC) date – September 2019 to September 2020**

	September 2019		September 2020	
	% of customers who engaged 40 days before to 30 days after EOC	Total % of customers who engaged*	% of customers who engaged 40 days before to 30 days after EOC	Total % of customers who engaged*
BT	16%	30%	40%	54%

<sup>45</sup> We show a comparison of 89 days before to up to 30 days after the contract end date for this period because we do not have visibility of engagement beyond the end of September 2019 in our dataset; engagement levels for September 2019 may therefore be slightly understated.

	September 2019		September 2020	
	% of customers who engaged 40 days before to 30 days after EOC	Total % of customers who engaged*	% of customers who engaged 40 days before to 30 days after EOC	Total % of customers who engaged*
EE	37%	44%	46%	51%
Plusnet	15%	19%	53%	61%
Sky	21%	26%	41%	48%
TalkTalk	30%	36%	49%	54%
Virgin Media	8%	8%	48%	50%
<b>Total</b>	<b>18%</b>	<b>23%</b>	<b>45%</b>	<b>52%</b>

\*Total percentage of customers who engaged includes any customer who re-contracted or switched from up to 89 days before to up to 30 days after their contract ended.

- 3.15 When comparing this period, Virgin Media saw the largest increase in customer engagement, with just 8% of customers engaging in September 2019 compared to 50% in September 2020. BT, Sky, TalkTalk and Plusnet also saw significant increases in engagement, while EE saw a relatively modest increase.
- 3.16 While comparing September 2019 to September 2020 shows the greatest increase in engagement, comparing other time periods within our dataset also indicates that engagement has increased since ECNs were introduced. For example, 36% of customers whose contracts ended in August 2019 engaged in the three months prior to, or two months after, their contract ended. In October 2020, 58% of customers engaged within the equivalent period.
- 3.17 This initial assessment indicates that, on the whole, broadband customers are significantly more engaged since end-of-contract notifications came into effect. We are particularly encouraged to observe very significant increases in engagement when comparing year on year trends. While we acknowledge that increases in engagement may have been driven to some extent by factors unrelated to end-of-contract notifications, it is nonetheless encouraging to see a significant improvement in customer engagement. However, we note that increases in engagement have been more pronounced for some providers than others, which could potentially reflect the way in which some providers have chosen to implement end-of-contract notifications. In chapter 5, we explore the extent to which providers' different approaches to the timing, method and content of their ECNs drove changes in engagement, and we note that we plan to conduct further work to assess the effectiveness of ECNs, as well as monitoring customer engagement indicators and providers' approaches.

## There was an increase in engagement among those who were already out-of-contract from 2019 to 2020, although the majority remained out-of-contract

- 3.18 We have also sought to understand whether engagement among out-of-contract customers has increased. To make this assessment, we compare the proportion of customers who were already out-of-contract on 1 September 2020, and who subsequently engaged in the following 90 day period, with the proportion of customers who were already out-of-contract on 1 July 2019, and who subsequently engaged over an equivalent 90 day period. Some of these customers may have been out-of-contract for a relatively short amount of time, while others may have been out-of-contract for much longer.
- 3.19 While customers whose contracts ended during or after February 2020 should have received an end-of-contract notification, relatively few out-of-contract customers had received an annual best tariff notification (ABTN) by September 2020, as most providers only began sending these towards the end of the implementation period for ABTNs which was February 2021.<sup>46</sup> Therefore, assessing changes in engagement among this cohort of customers allows us to observe whether there has been a more general increase in consumer engagement, including for reasons unrelated to receiving an end-of-contract notification or annual best tariff notification.
- 3.20 We found there was an increase in the proportion of out-of-contract customers who engaged in the period from 2019 to 2020, although the majority of these customers continue to remain out-of-contract. Specifically, 17% of customers who were already out-of-contract on 1 September 2020 engaged in the subsequent 90 day period, compared to 10% of out-of-contract customers who engaged within 90 days of 1 July 2019. This is shown in Table 3.4.

**Table 3.4: Proportion of out-of-contract customers who engaged in subsequent 90-day period**

	1 July 2019 % of OOC customers who engaged within 90 days	1 September 2020 % of OOC customers who engaged within 90 days
BT	10%	16%
EE	15%	27%
Plusnet	9%	12%
Sky	11%	22%
TalkTalk	15%	17%
Virgin Media	8%	15%

<sup>46</sup> By September 2020, only one broadband provider had sent any annual best tariff notifications to a non-negligible number of customers.

	1 July 2019	1 September 2020
	% of OOC customers who engaged within 90 days	% of OOC customers who engaged within 90 days
<b>Total</b>	<b>10%</b>	<b>17%</b>

- 3.21 All providers saw an increase in engagement among their out-of-contract customers, although these increases were more significant for some providers than others. Virgin Media, Sky and EE saw the most significant increases in engagement, with each experiencing an approximate doubling in engagement among their out-of-contract customers. BT also saw a relatively considerable increase in engagement, while Plusnet and TalkTalk saw comparatively modest increases. This increase in engagement may reflect increased promotional activity by providers seeking to re-contract their existing out-of-contract customers, or a greater inclination among out-of-contract customers to get back in contract, perhaps in order to get on top of household finances during the pandemic.
- 3.22 Increases in engagement were more pronounced among customers who have been out-of-contract for less than two years compared to customers who have been out-of-contract for longer. As shown in Table 3.5 below, 12% of customers who had been out-of-contract for more than two years engaged within 90 days of 1 September 2020 compared to 8% who engaged in the equivalent period from 1 July 2019. For customers who had been out-of-contract for less than two years, the comparable increase was greater, from 12% to 22% over the same time period.

**Table 3.5: Proportion of out-of-contract customers who engaged by tenure**

	1 July 2019		1 September 2020	
	Engagement among customers out-of-contract for less than 2years	Engagement among customers out-of-contract for more than 2 years	Engagement among customers out-of-contract for less than 2years	Engagement among customers out-of-contract for more than 2 years
BT	12%	9%	20%	11%
EE	19%	9%	34%	15%
Plusnet	11%	5%	18%	6%
Sky	13%	9%	24%	18%
TalkTalk	21%	8%	23%	9%
Virgin Media	9%	5%	19%	9%
<b>Total</b>	<b>12%</b>	<b>8%</b>	<b>22%</b>	<b>12%</b>

\*Engagement is measured by reference to whether the customer re-contracted or switched within 90 days from 1 July 2019 or 1 September 2020.

- 3.23 Based on this data, we are encouraged to see an increase in engagement among out-of-contract customers, but there remains considerable scope for further improvement. Customers who have been out-of-contract for longest are least likely to engage, and there are considerable differences between providers. This may indicate more intractable engagement challenges for customers who have been out-of-contract for a significant period. It is positive that some providers saw relatively significant increases in engagement among their out of contract customers, despite ABTNs not yet having been introduced in most cases as at September 2020. This suggests that other factors beyond ECNs and ABTNs may be driving increased engagement.
- 3.24 As the process of out-of-contract customers receiving ABTNs progresses, we expect engagement levels to further increase and will continue to monitor the extent to which these notifications improve customer engagement over time. For providers such as TalkTalk where engagement has remained largely constant from 2019 to 2020 we see considerable potential for ABTNs to lead to higher customer engagement. This may also be the case for providers such as Virgin Media, where engagement levels among out-of-contract customers has historically been low.

## **We have also looked at the experience of vulnerable customers**

- 3.25 In our previous broadband pricing reviews, published in 2019 and 2020, we examined outcomes for vulnerable broadband customers. This led to us securing commitments from major providers to protect vulnerable consumers from paying higher out of contract prices. Given this, and in light of our research over time showing that vulnerable customers can face additional challenges that make interacting with their provider more difficult, in the following paragraphs, we examine the extent to which consumer engagement among vulnerable broadband customers has changed since 2019, prior to the introduction of end-of-contract notifications.
- 3.26 Providers use a range of indicators to identify if a customer might be vulnerable, although this varies by provider. For example:
- BT, EE, Sky, and Virgin Media collect data on their customers' age.<sup>47</sup> As was the case in September 2019, those recorded as being aged 65+ make up a considerable proportion of the total number recorded as potentially vulnerable for these providers.
  - BT collect information relating to the financial circumstances of their customers, such as whether somebody is on a low income. In response to our information

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<sup>47</sup> EE did not collect age information in 2019. Sky has told us that it cannot guarantee the accuracy of age data in its records (e.g. where it has been incorrectly provided) and that it therefore considers that of its Date of Birth data should only be used for indicative purposes.

request, Sky were able to produce some information relating to potential indicators of economic vulnerability among its customers. We note that these providers used different definitions of potential financial or economic vulnerability.

- All six providers from whom we obtained data record information about any additional needs the customer may have which mean they require additional support.<sup>48</sup> We also obtained data relating to customers in arrears from all six providers, although only for 2020.

3.27 Throughout the rest of this section, unless otherwise stated, when we refer to ‘vulnerable customers’ we mean customers aged 65 or over, financially vulnerable customers as well as customers whose provider has identified that they need additional support because of their vulnerable circumstances.<sup>49</sup>

### **The proportion of customers who are recorded as vulnerable by their provider continues to increase**

3.28 In our previous broadband pricing reviews, we encouraged providers to take steps to improve their identification of vulnerable customers and recording of their needs, taking account of our ‘*Treating vulnerable customers fairly*’ guide.<sup>50</sup> We have used the data acquired from providers to understand what proportion of customers were identified as vulnerable or potentially vulnerable by their provider in 2020 compared to 2019. This is important because identifying someone who might be a vulnerable customer is the first step in providing the support they might need. Without taking effective steps to identify these customers, those who need and are entitled to support might not get it.

3.29 We found that, in total, providers identified 4.3 million vulnerable and potentially vulnerable customers equating to approximately 20% of broadband customers as at September.<sup>51</sup> This was an increase of approximately 2 percentage points compared to September 2019, equating to around 400,000 people. Most of this increase has been driven by providers gaining a better understanding of the age of their customers, with the majority of customers identified as potentially vulnerable being identified on the basis that they were aged 65 or over. Further details are included in Table 3.6.

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<sup>48</sup> Sky has told us that it records such information **with the consent of the customer**.

<sup>49</sup> Not all providers record customer age and/or financial vulnerability and, where they do, those in the 65+ age group or who are financially vulnerable make up a large proportion of the total group of vulnerable customers. In order to improve comparability between the providers we have used different aggregations of vulnerability indicators at certain points in our analysis. We note that, as set out in paragraph 3.26, providers define and record vulnerability differently, and that therefore the analysis that is set out in this chapter reflects these differences. Since the data that providers hold on their customers’ potential vulnerability relies on customer self-reporting, the data we have used in our analysis is unlikely to capture all the vulnerable customers of each provider.

<sup>50</sup> See Ofcom, July 2020. [Treating vulnerable customers fairly: A guide for phone, broadband and pay-TV providers](#), sections 4 and 5

<sup>51</sup> While four providers hold information on their customers’ ages, we note that they do not necessarily consider being 65+ to be an indicator of vulnerability.

**Table 3.6: Proportion of broadband customers identified as vulnerable or potentially vulnerable in September 2020**

	<b>% including all customers identified as vulnerable</b>	<b>% excluding customers identified as age 65+</b>	<b>% excluding customers identified as age 65+ or financially vulnerable</b>
<b>Total, September 2020</b>	20.2%	6.1%	1.6%
<b>Percentage point change since September 2019</b>	+2.1%	+0.1%	+0.4%

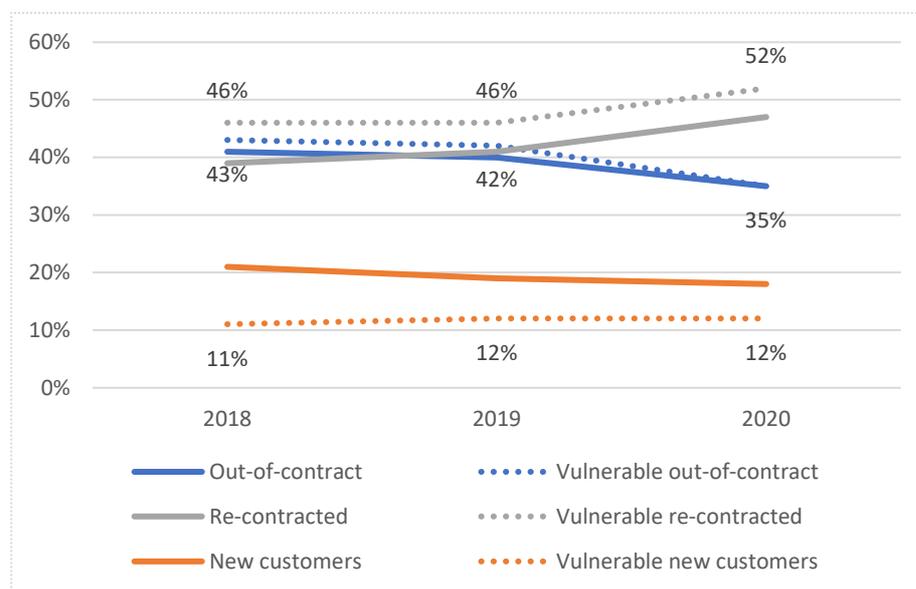
*Source: Ofcom analysis of provider data*

3.30 We welcome the progress providers have made in identifying vulnerable customers and recording their needs from 2019 to 2020, but there remains room for further improvement. We consider it important that providers continue to improve how they identify vulnerable customers and record their needs, to help improve outcomes for vulnerable customers and to ensure they are treated fairly. This is particularly important in light of the commitments providers have made to limit the extent to which vulnerable customers are exposed to high out-of-contract prices (see paragraphs 3.54 – 3.63).

### **Vulnerable customers are no more likely to be out-of-contract than customers overall, but they tend to remain out-of-contract for longer**

3.31 In both 2018 and 2019, vulnerable customers were slightly more likely to be out-of-contract than customers overall. However, there was a significant reduction in the proportion of vulnerable customers who were out-of-contract from 2019 to 2020. This reduction was larger than the relative reduction in the proportion of total customers who are out-of-contract, such that vulnerable customers were no more likely to be out-of-contract than customers overall. As shown in Figure 3.2, the proportion of vulnerable customers who were out-of-contract fell from 42% in September 2019 to 35% in September 2020. This was largely driven by an increase in the proportion of vulnerable customers who re-contracted, rather than switched to a different provider.

**Figure 3.2: Contract status of all customers and vulnerable customers\***



\*Data labels relate to vulnerable customers

3.32 However, our analysis shows that vulnerable customers continue to be more likely than average to have been out-of-contract for longer periods (two or more years). In 2019, we found that while 37% of all out-of-contract customers had been out-of-contract for two or more years, the comparable figure for vulnerable customers was 44%. In 2020, the proportion of all out-of-contract customers that had been out-of-contract for two or more years rose to 40%, with the comparable figure for vulnerable customers also increasing, albeit to a lesser degree, to 45%. This may in part reflect the improvement among providers in identifying their customers who are aged 65 or over, given our previous finding that older people are more likely to be out-of-contract compared to customers overall.<sup>52</sup>

### **There has been a significant increase in engagement among vulnerable customers since our rules on end-of-contract notifications came into effect**

3.33 We find that engagement among vulnerable customers whose contracts ended in September 2020 increased significantly compared to customers in the same position in July 2019, prior to the introduction of ECNs. Engagement among vulnerable customers has increased to such an extent that vulnerable customers were slightly more likely to engage than customers overall in September 2020. As set out in Table 3.7, of the vulnerable customers whose contracts ended during July 2019, 45% engaged in the period between

<sup>52</sup> In 2019, older customers were more likely to have been out-of-contract for two or more years. 44% of those out-of-contract customers who were aged 65+ had been in this contract status for at least two years, compared to the average of 37%. This was even more pronounced among those who were 75+. See Ofcom, July 2020, [Review of pricing practices in fixed broadband](#), paragraph 3.41.

approximately three months before the end of the contract and approximately three months after, compared to 47% of customers overall. Of the vulnerable customers whose contracts ended during September 2020, 63% engaged in a similar period compared to 62% of customers overall.

**Table 3.7: Engagement among vulnerable customers and customers overall**

	1 July 2019		1 September 2020	
	Engagement among vulnerable customers whose contracts ended within the month	Engagement among customers overall whose contracts ended within the month	Engagement among vulnerable customers whose contracts ended within the month	Engagement among customers overall whose contracts ended within the month
BT	56%	54%	65%	62%
EE	66%	61%	71%	68%
Plusnet	36%	44%	72%	72%
Sky	33%	33%	58%	59%
TalkTalk	70%	68%	74%	66%
Virgin Media	32%	43%	57%	59%
<b>Total</b>	<b>45%</b>	<b>47%</b>	<b>63%</b>	<b>62%</b>

3.34 There is considerable variation among providers in the extent to which their vulnerable customers were more engaged in 2020 compared to 2019. Plusnet, Sky and Virgin Media saw the largest percentage increases. BT, EE and TalkTalk each saw smaller increases, partly reflecting the fact that they each had above average levels of engagement among their vulnerable customers in 2019. Overall, we find that engagement among vulnerable customers increased at broadly the same rate as customers overall.

3.35 To enable a year on year comparison, we have also compared engagement among vulnerable customers whose contracts ended in September 2020 to vulnerable customers in the same position in September 2019. Once again, we find that engagement among vulnerable customers increased at broadly the same rate as customers overall, with 23% of vulnerable customers whose contracts ended in September 2019 engaging compared to 55% in September 2020.<sup>53</sup> As set out in Table 3.3, the equivalent figures for customers overall were 23% and 52%.

<sup>53</sup> Engagement is measured by reference to the total number of vulnerable customers who re-contracted or switched from up to 89 days before to up to 30 days after their contract ended.

3.36 Our analysis also indicates that engagement has increased among all vulnerable customers irrespective of the type of vulnerable circumstances they are in, or additional needs they have, in a roughly similar proportion to customers overall.<sup>54</sup>

### **In line with the trend for customers overall, vulnerable customers who were already out of contract were slightly more engaged in 2020 compared to 2019**

3.37 There was an increase in the proportion of vulnerable out-of-contract customers who engaged in the period from 2019 to 2020. This increase is roughly in line with the increase among out-of-contract customers overall, with 15% of vulnerable customers who were already out-of-contract on 1 September 2020 engaging in the subsequent 90 day period, compared to 8% of out-of-contract vulnerable customers who engaged within 90 days of 1 July 2019. As noted in paragraph 3.20, the comparable figures for customers overall are 10% and 17% for July 2019 and September 2020 respectively. This is shown in Table 3.8.

**Table 3.8: Proportion of vulnerable out-of-contract customers who engaged in subsequent 90 day period**

	1 July 2019		1 September 2020	
	Engagement among vulnerable customers who were already out-of-contact	Engagement among customers overall who were already out-of-contact	Engagement among vulnerable customers who were already out-of-contact	Engagement among customers overall who were already out-of-contact
BT	9%	10%	14%	16%
EE	18%	15%	20%	27%
Plusnet	7%	9%	20%	12%
Sky	10%	11%	18%	22%
TalkTalk	14%	15%	17%	17%
Virgin Media	6%	8%	12%	15%
<b>Total</b>	<b>8%</b>	<b>10%</b>	<b>15%</b>	<b>17%</b>

3.38 All providers saw an increase in engagement among their vulnerable out-of-contract customers, although these increases were more significant for some providers than others. EE and Plusnet had the highest rates of engagement among their vulnerable out-of-contract customers, while Virgin Media had the lowest. With the exception of Plusnet,

<sup>54</sup> We considered a range of vulnerable circumstances including age, financial vulnerability and other circumstances such as having a physical disability or a mental health condition.

vulnerable customers who were already out-of-contract were equally or less engaged in September 2020 than customers overall for all providers. These figures are broadly comparable to out-of-contract customers overall, indicating again that vulnerable customers appear no more likely to be disengaged than customers overall.

### **Those living in the most deprived areas in the UK remain less likely to be out-of-contract than people living elsewhere in the UK**

- 3.39 We have also examined to what extent engagement among customers living in the most deprived areas of the UK has changed from 2019 to 2020, by drawing on Indices of Multiple Deprivation (IMD) data.<sup>55</sup>
- 3.40 As was the case in 2019, customers with postcodes in the most deprived decile of the UK were slightly less likely than those in the rest of the UK to be out-of-contract in 2020 (33% compared with 35%), which could be consistent with these customers being more likely to take advantage of the cheaper prices available to in-contract customers. Engagement among customers in the most deprived areas increased at a similar rate compared to customers overall from 2019 to 2020, with 33% of customers in these areas out-of-contract in 2020 compared to 39% in 2019. This is roughly in line with the overall reduction in the proportion of customers out-of-contract from 40% in 2019 to 35% in 2020.<sup>56</sup>

### **Broadband customers, including those who are vulnerable, are more engaged since end-of-contract notifications came into effect**

- 3.41 Our assessment of the impact of ECNs on engagement in the broadband market since they were introduced in February 2020 indicates that customer engagement has increased. This is also the case for vulnerable customers. Indeed, in some cases, vulnerable customers appear more engaged in 2020 than customers overall. While we recognise other factors may have been behind some of the increase in engagement, our initial assessment indicates that steps taken to help engagement are benefitting customers, including vulnerable customers.
- 3.42 We will continue to monitor the impact of end-of-contract notifications to observe what impact they have as more customers, including vulnerable customers, receive them. It will also be important to assess the impact of annual best tariff notifications on vulnerable customers, especially those who have been out-of-contract for longer periods and may

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<sup>55</sup> The Indices of Multiple Deprivation is the official measure of relative deprivation for different areas. The methodology may differ slightly across the Nations. It usually combines information from various deprivation domains to produce an overall relative measure of deprivation. Data and methodologies for each Nation can be found here: [England](#); [Scotland](#); [Wales](#); [Northern Ireland](#).

<sup>56</sup> There were similar increases in engagement among this customer group compared to customers overall for both customers whose contracts ended in 2020 (compared to customers whose contracts ended in 2019) as well as customers who were already out-of-contract.

face particular barriers to engagement. We would expect these notifications to drive further increases in engagement over time.

- 3.43 While understanding changes in the contract status of customers is important in monitoring consumer engagement, it is also important to assess what prices different groups of customers pay on average. This helps us to understand how the benefits of engaging, either by switching or re-contracting, translate into savings and to what extent vulnerable customers are more or less likely to benefit from lower prices than customers overall. In the following section we therefore examine the impact of price differentials on out-of-contract customers including vulnerable customers.

### **Price differentials and the impact on out-of-contract customers**

- 3.44 As set out in chapter 2, although we don't consider price differentials to be problematic in themselves, we have been concerned for some time about the impact of high out-of-contract prices on people who struggle to engage, especially vulnerable customers. In order to calculate the impact of price differentials on out-of-contract customers, we have used the same methodology as in our July 2020 Broadband Pricing Review, which allows us to compare out-of-contract prices to the average price.<sup>57</sup> In our view, this provides a realistic benchmark for the price which out-of-contract customers would likely pay if there was a sustained movement of customers to in-contract prices.
- 3.45 In this section, we set out our assessment of the impact of price differentials on all out-of-contract customers, as well as on out-of-contract customers who have been identified by their provider as vulnerable. We first present data on the per month price differential that customers pay depending on their contract status, before looking at the annual aggregate price differential.

### **The amount out-of-contract customers pay compared to the average has slightly increased since 2019, although this is due to further discounting of new customer prices rather than out-of-contract prices increasing**

- 3.46 The per person monthly price differential in 2020 was £5.10, which is slightly higher than the £4.70 differential we found in September 2019. As with the proportion of customers out-of-contract, there is considerable variation between providers in terms of their pricing practices. Price differentials by provider are shown in Table 3.9 below.

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<sup>57</sup> Specifically, we compare the differential in individual customer prices to prices averaged over all contract status types for similar services with the same provider.

**Table 3.9: Price differentials in September 2019 and September 2020, by provider<sup>58</sup>**

	September 2019 OOC-average price differential per month	September 2020 OOC-average price differential per month
BT	£4.20	£3.40
EE	£7.90	£8.90
Plusnet	£5.10	£5.70
Sky	£4.30	£4.60
TalkTalk	£6.90	£4.90
Virgin Media <sup>59</sup>	£4.30	£6.10
<b>Total</b>	<b>£4.70</b>	<b>£5.10</b>

3.47 With the exception of BT and TalkTalk, all providers saw an increase in their average price differential, although this increase was more pronounced for some than for others. Virgin Media saw the largest absolute increase, while EE continued to have the highest price differential of all major providers. Sky and Plusnet saw relatively small increases, while TalkTalk saw the most significant reduction.

3.48 The overall increase in the out-of-contract – average price differential is driven by a combination of factors. Prices paid by in-contract customers continued to fall from 2019 to 2020, while prices paid by out-of-contract customers have remained largely stable over the last few years. The increase in the monthly price differential therefore in part reflects lower prices for new customers rather than an increase in the prices paid by out-of-contract customers, and from that perspective is less concerning to us than would be the case if out-of-contract prices were significantly increasing. The increase also reflects the reduction in the total number of out-of-contract customers.

3.49 Specifically, the average monthly price paid by broadband customers in aggregate reduced from £39 in 2019 to £38.10 in 2020, driven by reductions in average prices paid by new customers (from £29.20 to £28.60) and re-contracted customers (£35.10 down from £36.50).<sup>60</sup> This comes at a time when average speeds and data consumption are increasing, meaning most customers are getting more for less. Average out-of-contract monthly spend has remained roughly stable at £47 from 2018 to 2020.

3.50 The increase in the per person monthly price differential between out-of-contract customers and the average is also likely to reflect the fact that fewer people were out-of-

<sup>58</sup> Numbers are rounded to the nearest 10p.

<sup>59</sup> Virgin Media prices include billable calls for dual and triple play customers and TV packages for triple play customers. For Virgin Media, price differentials are calculated for a comparable combination of tariff, broadband, call and TV package (where relevant) and data allowance.

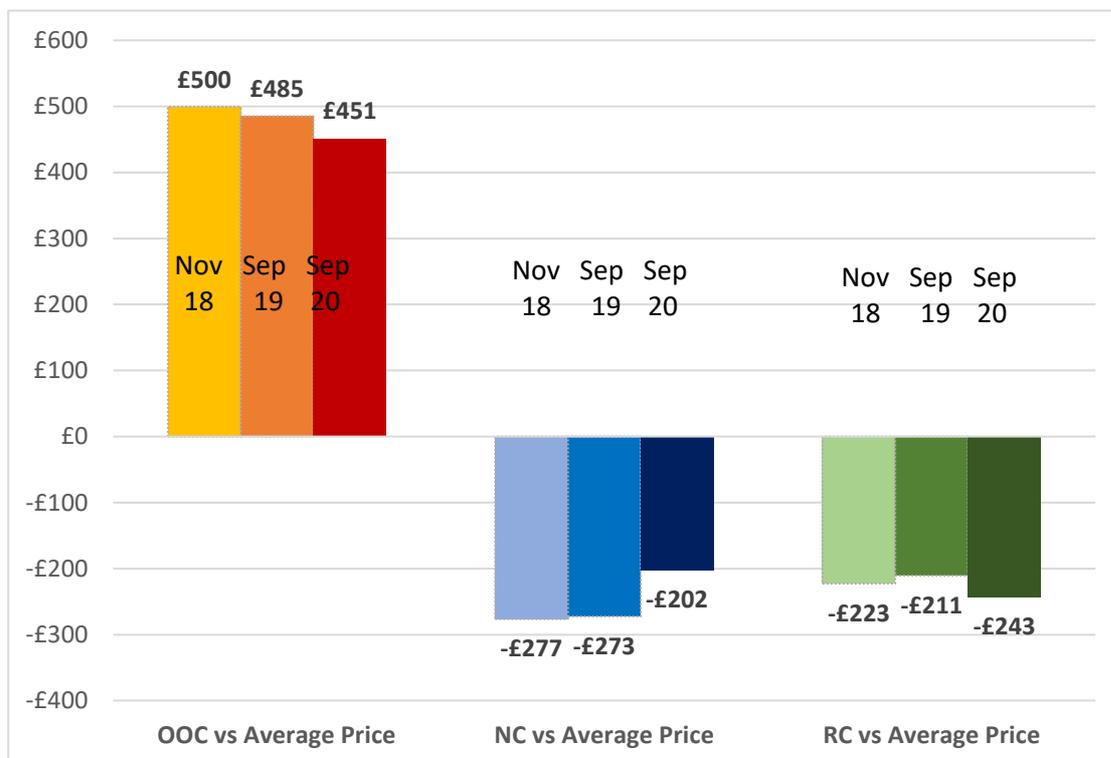
<sup>60</sup> Based on data obtained from BT, EE, Plusnet, Sky, TalkTalk and Virgin Media.

contract in 2020 compared to 2019. The practical effect of significant numbers of people who were previously out-of-contract getting back into contract is a reduction in the average price paid by all customers, while the average price paid by those who remain out-of-contract remains largely stable. As a result, those who are out-of-contract pay relatively more per person compared to the average than was the case in 2019, when relatively more people were out-of-contract.

### The annual aggregate differential between out-of-contract customers prices and average prices has fallen

3.51 The annual aggregate differential between out-of-contract (OOC) prices and average prices fell from £485m in 2019 to £451m in 2020.<sup>61</sup> The equivalent figure in 2018 was £500m, indicating a modest but sustained fall in the annual aggregate differential over time. At the same time, the annual aggregate difference between the prices paid by new customers (NC) and average prices reduced from 2019 to 2020, while the difference between the prices paid by re-contracted customers (RC) and the average has grown. This is set out in Figure 3.3 below.

**Figure 3.3: Annual aggregate price differentials (£ million) – comparison with average prices (all tariffs, speed bands and data allowances) 2018 to 2020**



<sup>61</sup> The annual aggregate differential is a measure of how much per year out-of-contract customers pay compared to the average price of a similar product.

- 3.52 As we made clear in our July 2020 Broadband Pricing Review, our finding that customers pay different prices for their services is not necessarily concerning and often occurs in competitive markets. We remain of this view. Customers who shop around can take advantage of discounts offered to encourage switching or to support the take-up of new services.<sup>62</sup> As providers continue to invest in new technologies to meet the growing current and future demand for gigabit-capable broadband services, we would expect to see providers continue to discount new services, resulting in some differences between the prices different customers pay.
- 3.53 However, we do have concerns about the impact of high out-of-contract prices where customers are unaware of these differences or have difficulties engaging to secure a better deal, particularly vulnerable customers. It is for this reason that we secured commitments from major providers to protect their vulnerable out-of-contract customers from high out-of-contract prices. In the following paragraphs, we examine the extent to which the practice of price differentiation impacts vulnerable out-of-contract customers, including the extent to which this has changed from 2019 to 2020. This allows us to reach some initial observations on the impact of the commitments providers have made.

## The impact of price differentials on vulnerable out-of-contract customers

### Vulnerable customers continue to pay a lower price differential than customers overall

- 3.54 In 2019, we found that vulnerable customers tended to pay a lower price differential than customers overall. Specifically, we found that vulnerable customers paid a differential of £3.90 per month, compared to £4.70 for customers overall. It remained the case in 2020 that vulnerable customers pay a lower price differential, although in line with trends for all customers the per person price differential for vulnerable customers rose slightly since 2019. This is shown in Table 3.10 below.

**Table 3.10: Price differentials for vulnerable customers compared to customers overall**

	September 2019		September 2020	
	OOC-average price differential per month for vulnerable customers	OOC-average price differential per month for all customers	OOC-average price differential per month for vulnerable customers	OOC-average price differential per month for all customers
<b>Total</b>	£3.90	£4.70	£4.20	£5.10

<sup>62</sup> Searching for a new deal and switching provides takes time and effort by the customer and can be encouraged if there is likely to be a reward for doing so.

3.55 To better understand outcomes for vulnerable customers, we have analysed the impact of price differentials on customers in certain vulnerable circumstances. We found that vulnerable customers pay a lower price differential than customers overall, irrespective of their particular vulnerable circumstances or needs. This was true in both 2019 and 2020. Excluding customers who are over 65 or financially vulnerable, we see a significant reduction in the monthly price differential from 2019 to 2020. This is shown in table 3.11:

**Table 3.11: Impact of price differentials on customers in certain vulnerable circumstances**

	September 2019: OOC- average price differential per month	September 2020: OOC- average price differential per month
Customers aged 65+ only	£3.90	£4.40
Vulnerable customers excluding those aged 65+	£3.80	£2.70
Vulnerable customers excluding financially vulnerable people and those aged 65+	£4.40	£2.30
Customers providers have identified as vulnerable or potentially vulnerable	£3.90	£4.20
<b>All customers</b>	<b>£4.70</b>	<b>£5.10</b>

3.56 This significant reduction may reflect the way in which providers have chosen to implement their commitments to protect vulnerable customers from high out-of-contract prices, with most providers choosing to focus their targeted commitments on those customers they have identified as needing additional support because of their vulnerable circumstance, rather than, for example, automatically including all older or financially vulnerable people. Virgin Media is the only provider to automatically include older people in its targeted commitment.

3.57 It is also important to note that in September 2020, some providers had only recently introduced their commitment to protect vulnerable customers and some were yet to take effect at all.<sup>63</sup> Much of the positive effect of the commitments on outcomes for vulnerable customers as at September 2020 is therefore attributable to the providers who acted soonest to implement their commitments – especially BT and TalkTalk. We would expect the differential paid by vulnerable out-of-contract customers to reduce over time relative

<sup>63</sup> The dates on which providers' commitments to protect vulnerable customers came into effect were as follows: BT (June 2020), EE (Q4 2020/21), Plusnet (September 2020), Sky (November 2020), TalkTalk (January 2020), Virgin Media (December 2020).

to the average, as the impact of commitments from other providers take effect, and as identification of vulnerable customers and recording of their needs continues to improve. We will continue to monitor the impact of these commitments on vulnerable customers.

- 3.58 We have also examined the prices paid by customers in the most deprived areas of the UK. This analysis shows that, overall, the average price differential paid by customers in the most deprived areas of the UK is the same as that paid by customers elsewhere, at £5.10 per month. For the first time, we were also able to look at outcomes for customers in arrears. Our analysis shows that customers in arrears paid a slightly higher per person price differential to customers overall in 2020, at £5.90 per month, compared to £5.10 per month. For both customers in more deprived areas and customers in arrears, there was some variation by provider.

### **The price differential for out-of-contract vulnerable customers remained at just under £80m in 2020**

- 3.59 We estimate that the annual aggregate impact of price differentials on out-of-contract customers was £451m per year in 2020. We estimate that the impact on out-of-contract vulnerable customers was £76m per year. This is unchanged from 2019, despite the reduction in the annual aggregate impact for all customers from £485m to £451m. Part of the reason the aggregate figure remained stable for vulnerable customers is that provider identification of potentially vulnerable people has improved from 2019 to 2020, particularly among people aged 65 or over. People in this age group tend to stay out of contract for longer, and usually pay a higher price as a result. Consequently, this has an impact on the level of the aggregate differential overall for these customers. As more out-of-contract customers receive annual best tariff notifications, we would expect to see a reduction in the length of time that most people spend out-of-contract, although we recognise that engagement challenges may persist for some.

### **The commitments from providers are having a positive impact on vulnerable customers but there is room for further improvement**

- 3.60 Overall, we welcome the progress made in reducing the exposure of vulnerable customers to high out-of-contract prices. We are particularly encouraged to see significant reductions in the impact of price differentials for vulnerable customers providers have identified as needing additional support because of their circumstances, where we see a reduction in the monthly per person differential from £4.40 in 2019 to £2.30 in 2020.
- 3.61 However, there remains room for further improvement in some areas. While we welcome the progress providers have made in collectively identifying a further approximately 400,000 vulnerable customers from 2019 to 2020 it is likely that some people who would benefit from additional targeted support to get a better deal may not currently be

receiving it.<sup>64</sup> Therefore, we encourage providers to draw on the recommendations in our guide to treating vulnerable customers fairly so that the number of customers identified as vulnerable continues to increase, and that their needs are recorded.

- 3.62 We also encourage providers to consider how best they can support vulnerable customers who have been out-of-contract for some time, including older customers where they aren't covered by existing measures. We are encouraged to observe that vulnerable customers whose contracts have ended recently (e.g. in September 2020) appear to be similarly engaged to customers overall. This suggests that end-of-contract notifications appear to benefit different groups of customers in similar ways. We will monitor the extent to which annual best tariff notifications have an impact on prompting engagement among vulnerable customers who have been out-of-contract for some time, and for whom engagement barriers may be higher.
- 3.63 An important development since our last report into broadband pricing in July 2020 has been the introduction by many providers of voluntary targeted tariffs (sometimes referred to as social tariffs). These tariffs are intended to help alleviate affordability issues for consumers on low incomes for whom even the cheapest commercially available tariffs may be unaffordable. They are usually available to recipients of certain means-tested benefits, and may help those who are financially vulnerable to avoid high out-of-contract prices where they are paying them. We have a separate programme of work monitoring the availability and take up of such tariffs.<sup>65</sup>

## Summary

- 3.64 In summary, our assessment is that the initial impact of the measures introduced to help broadband customers get better deals has been positive. In particular, we note that:
- a) broadband customers appear more engaged since end-of-contract notifications came into effect;
  - b) engagement among vulnerable customers has increased at a similar rate to customers overall, which suggests that the measures introduced are benefitting different groups of customers in similar ways;
  - c) engagement among out-of-contract customers who were yet to receive an ECN or ABTN was lower. As more people receive these notifications and potentially take action, there is scope for further improvement in engagement overall;
  - d) vulnerable customers remain only slightly more likely than average to be out-of-contract; and,

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<sup>64</sup> The total number of vulnerable customers identified by providers was 3.9 million in 2019 and 4.3 million in 2020.

<sup>65</sup> See [our work regarding the affordability communications services](#).

e) vulnerable out-of-contract customers pay a lower price differential than customers overall. The impact of price differentials on some of the most vulnerable people has significantly reduced from 2019 to 2020.

3.65 However, increases in engagement have been lower among customers of some providers compared to others. In addition, despite the improvement in customer engagement overall, vulnerable customers remain more likely to stay out of contract for longer. We are mindful that many customers had not yet received an end-of-contract notification or annual best tariff notification at the point at which we acquired data from providers, while some of the commitments providers have implemented to help vulnerable people get better deals, had not yet taken effect at that point. We will continue to monitor the impact of ECNs and ABTNs, so that we can observe the extent to which they are successful in addressing our concerns over time.

## 4. Mobile

### Developments in the pay-monthly mobile market

- 4.1 As set out in Section 2, our 2019 mobile handset review found that 11% of bundled handset and airtime customers were out-of-contract in 2018, indicating high levels of engagement among bundled customers. However, we also found that around 1.4 million customers on bundled contracts who were out-of-contract were overpaying, on average, by just under £11 per month more than if they switched to a comparable SIM-only deal. This amounted to a total of around £182m a year.
- 4.2 Since our review, there have been a number of market developments, not least the introduction of ECNs, mobile providers offering different alternatives to how consumers can purchase their mobile services, and the voluntary commitments which most major mobile providers introduced for their bundled out-of-contract customers. Each of these developments may have influenced how customers engage in the market. We have therefore gathered and analysed data from major mobile providers relating to 2019 and 2020, to understand what impact these developments have had for mobile customers.
- 4.3 We begin by looking at how the mobile market has developed over the last few years, in particular trends in customers' contract status and the type of mobile contracts they take. We then look at how engagement among mobile customers has changed since the introduction of ECNs.<sup>66</sup> Finally, we examine the prices paid by out-of-contract bundled customers and how these compare to comparable SIM-only tariffs in order to assess the extent to which any overpayment by customers for their handsets has changed since 2018.

#### Key findings

In summary, we found that:

- **SIM-only contracts are increasing in popularity while the number of bundled contracts purchased continue to reduce.** Since January 2014, we have seen a significant decline in the proportion of customers on bundled contracts as a share of the total pay-monthly mobile market. In contrast, SIM-only contracts have grown significantly in popularity over the same period.

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<sup>66</sup> We set out in this section the key findings from our analysis of mobile customer records from the period September 2020 to November 2020 which were provided to us by Vodafone, O2, EE, Three and Tesco Mobile.

- **Engagement among mobile customers has been broadly stable in recent years, but there is some evidence that engagement is now increasing.** The proportion of mobile customers who were out-of-contract fell slightly from 27% in 2019 to 25% in 2020. Forty two per cent of SIM-only customers were out of contract, compared to 11% of customers on bundled contracts, which likely reflects the weaker incentives for SIM-only customers to engage compared to bundled customers.
- Bundled customers were already highly engaged prior to the introduction of ECNs. However, engagement among bundled customers whose contracts ended in September 2020 was even higher than in the comparable period in 2019 (76% in 2020 up from 70% in 2019). There was a comparable increase in engagement among SIM-only customers over the same period (32% in 2020, up from 27% in 2019).
- **Engagement among out-of-contract customers is lower, especially for SIM-only customers.** 25% of bundled customers who were already out-of-contract on 1 September 2020 engaged at some point in the following 90 days, compared to 19% of SIM-only customers. There was a slight reduction in engagement among out-of-contract bundled customers from 2019 to 2020 (from 28% to 25%), while the proportion of SIM-only out-of-contract customers who engaged increased over the same period (from 14% to 19%).
- **The overall annual aggregate overpayment among bundled out-of-contract customers has decreased significantly.** The total amount by which bundled out-of-contract customers overpay relative to comparable SIM-only prices has reduced significantly from £182m in 2018 to £83m in 2020, since the commitments we secured came into effect.
- **The level of annual overpayment per customer has slightly increased** from £37 in 2018 to just under £41 in 2020. This is likely to reflect historic pricing dynamics over the period from 2018 to 2020 and is not necessarily an indication that overpayment per customer will continue to increase over time, nor a cause for concern.
- **Broader market trends, including the move away from bundled contracts towards greater uptake of SIM-only and split contracts, mean that the issue of overpayment will continue to decline over time.**

## As the pay-monthly mobile market evolves, SIM-only contracts are increasing in popularity while the number of bundled contracts is reducing

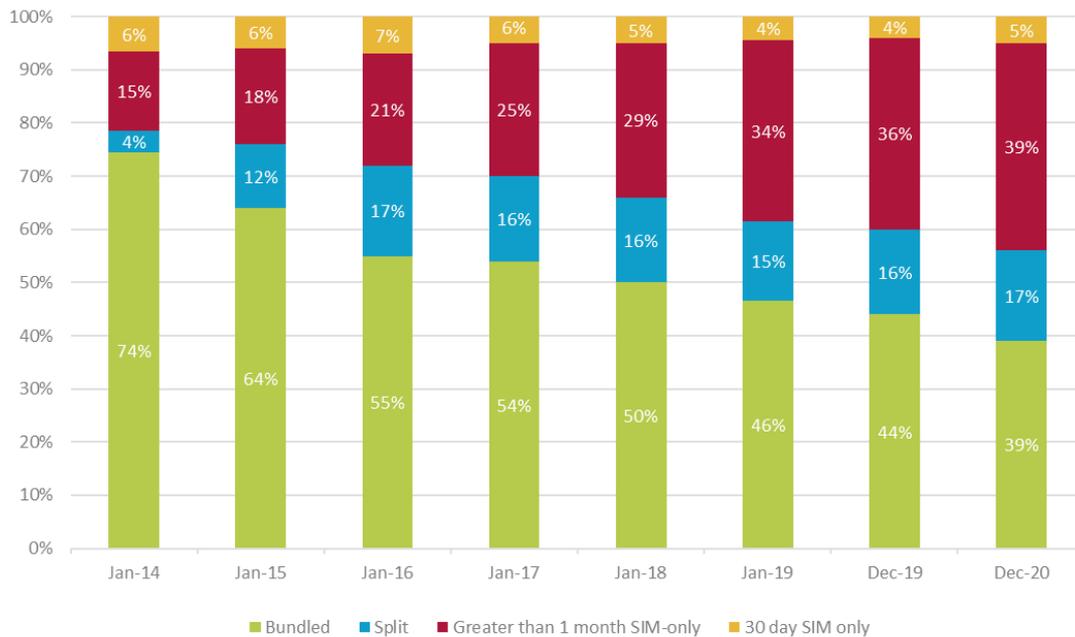
4.4 There are three broad contract types available to pay-monthly mobile customers: bundled handset and airtime contracts, split contracts and SIM-only contracts.<sup>67</sup> SIM-only contracts are typically offered on either a rolling 30 day basis or with a minimum commitment period which is usually around 12 months in duration (although it can be up to 24 months). Since 2014, we have seen a significant decline in the proportion of customers on bundled contracts as a share of the total pay-monthly mobile market. In January 2014 bundled

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<sup>67</sup> Pay-monthly customers are active mobile subscribers who use mobile services on mobile handsets (for example excluding data only subscriptions).

contracts accounted for 74% of the total pay-monthly mobile market while by December 2020 this had reduced to just 39%.<sup>68</sup>

**Figure 4.1: Composition of pay-monthly contracts from January 2014 to December 2020**<sup>69</sup>



4.5 In contrast, SIM-only contracts have grown significantly in popularity over the same period. In December 2020, SIM-only contracts accounted for 44% of the pay monthly mobile market, the largest share of all contract types. This is a significant increase from January 2014 where SIM-only contracts accounted for only 21% of the pay monthly mobile market. Among all SIM-only contracts, those with a commitment period of more than 12 months have grown in popularity. They accounted for 2% of the pay monthly market in December 2019 but increased to 11% by the end of 2020 suggesting that customers are increasingly taking advantage of the price certainty, as well as generally lower prices offered by 12 and 24 months SIM-only contracts.<sup>70</sup>

4.6 Split contracts have also grown in popularity since 2014, albeit at a slower pace. Split contracts are those where customers purchase both an airtime tariff and a mobile handset at the same time under two separate contracts, and where the monthly cost to the customer is separated into prices for the airtime and the handset. In January 2014, shortly after this type of contract was initially introduced to the market by O2 and then by Tesco

<sup>68</sup> The number of bundled contracts has reduced by 1.1 million since 2018.

<sup>69</sup> Figures for 2019 and 2020 are displayed as of 1 December. The data presented in the bar graph following the dotted line (Dec 19 and 20) is from information requests made to EE, O2, Vodafone, Three, Tesco Mobile and Virgin Mobile. Please note that the bars following the dotted line does not include data on pay monthly contracts from Sky Mobile or Giffgaff unlike the bars dated Jan 14 – Jan 19.

<sup>70</sup> The proportion of SIM-only contracts that are more than 12 months in duration are included as 'Greater than 1 month SIM-only contracts' in Figure 4.1.

Mobile, they accounted for just 4% of the pay monthly market. By December 2020, this had increased to 17% with providers such as Virgin Mobile and Sky Mobile also offering split contracts.<sup>71</sup>

- 4.7 Split contracts allow customers the option to spread the cost of the handset over a longer period of time. We anticipate that the proportion of customers on split contracts will continue to grow in the future, as more mobile providers introduce them and as the number of bundled contract propositions available reduces. Vodafone launched its split contract EVO mobile plan in June 2021 which allows a customer to choose the length of the handset plan up to 36 months. Customers are also able to re-contract or switch their airtime contract without having to pay off the remaining handset loan. EE has told us it is considering introducing split contracts in the future.

### **Engagement among mobile customers has been broadly stable in recent years, but there is some evidence that engagement is now increasing**

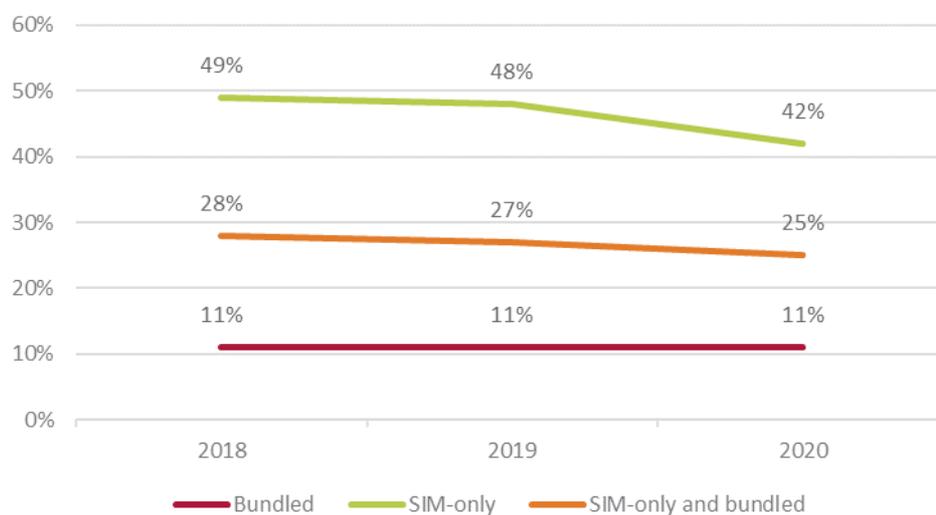
- 4.8 The proportion of pay-monthly mobile customers who are out of contract has historically been low compared to broadband.<sup>72</sup> As shown in Figure 4.2, 28% of mobile customers were out-of-contract in 2018, falling slightly to 25% in 2020. In contrast, the total proportion of broadband customers who were out-of-contract was 41% in 2018, falling to 35% in 2020.
- 4.9 It is worth noting that unlike in broadband, where most customers who are out of contract pay a higher monthly price for their service compared to the price they paid when in contract, being out of contract on a mobile contract does not usually lead to a price increase. In fact, some mobile customers may be better off remaining out-of-contract compared to taking out a new contract. This is an important feature of the pay-monthly mobile market which makes it distinct from other communications services. As a result, the incentives for out-of-contract customers to engage by re-contracting or switching are different for mobile customers, with some choosing to remain out-of-contract to benefit from lower priced deals no longer available, or to remain out of contract for a short period of time because they are waiting for a new handset to launch.

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<sup>71</sup> In 2020, 88% of all split contracts featured a 30-day rolling airtime contract, and 12% featured a fixed airtime contract of more than 30 days.

<sup>72</sup> The analysis set out in the remainder of this chapter includes data from EE, O2, Vodafone, Three and Tesco Mobile. We also sought comparable data from Virgin Mobile but were not able to obtain sufficiently reliable data from Virgin Mobile to include in our analysis. We are engaging with Virgin Mobile separately about this.

**Figure 4.2: proportion of pay-monthly mobile customers who were out of contract by contract type<sup>73</sup>**



4.10 As set out in section 2, we pay particular attention to the number of customers on bundled deals who are out-of-contract because many of these customers could save money by switching to a comparable SIM-only tariff. The total number of customers on bundled contracts who were out of contract has steadily declined since 2018. In 2018, there were 2 million of these customers who were out of contract. This reduced by 300,000 customers to 1.7 million customers in 2020. However, the proportion of bundled out-of-contract customers has remained stable at 11% from 2018 to 2020. This is still significantly lower than the pay monthly market average of 25%.

**Table 4.1: Proportion of bundled customers who were out-of-contract for each provider in 2019 and 2020<sup>74</sup>**

	2019	2020
	Proportion of bundled contracts that have reached contract end date	Proportion of bundled contracts that have reached contract end date
EE	11%	12%
O2	8%	4%
Vodafone	10%	10%
Three	11%	9%

<sup>73</sup> Figures accurate as at November in each of 2018, 2019, 2020.

<sup>74</sup> The proportion of bundled out-of-contract customers as at 30 November 2019 and 2020

	2019	2020
	Proportion of bundled contracts that have reached contract end date	Proportion of bundled contracts that have reached contract end date
<b>Tesco Mobile</b>	22%	22%
<b>Total</b>	<b>11%</b>	<b>11%</b>

4.11 Table 4.1 above shows the proportion of bundled customers who were out-of-contract in 2019 and 2020 for some of the UK's largest mobile providers. This shows a roughly stable trend for EE, Vodafone, Three and Tesco over this period, consistent with the overall market trend. The proportion of O2's bundled customers who were out-of-contract fell from 8% in 2019 to 4% in 2020. O2 was the only provider to experience a significant change in the proportion of bundled customers who were out-of-contract over this period.

4.12 We have also examined trends in the proportion of customers on SIM-only contracts who were out of contract from 2019 to 2020. This is because although these customers are often at a financial advantage by staying out of contract, contract status can nonetheless provide an indication of customer engagement. In 2020, 42% of SIM-only customers were out of contract, compared to 11% of customers on bundled contracts, which likely reflects the weaker incentives for SIM-only customers to engage. Nevertheless, the proportion of SIM-only customers who were out of contract reduced by 6 percentage points from 48% in 2019 to 42% in 2020, although this was exclusively driven by a significant reduction in the proportion of Three's customers who were out of contract from 47% in 2019 to just under 15% in 2020 as set out in Table 4.2 below. Three has told us that this is a result of a marketing campaign at the time.

**Table 4.2: Proportion of out-of-contract SIM-only customers for each provider in 2019 and 2020** <sup>75</sup>

	2019	2020
	Proportion of SIM-only contracts that have reached contract end date	Proportion of SIM-only contracts that have reached contract end date
<b>EE</b>	54%	54%
<b>O2</b>	47%	46%
<b>Vodafone</b>	41%	42%
<b>Three</b>	47%	15%
<b>Tesco Mobile</b>	52%	53%
<b>Total</b>	<b>48%</b>	<b>42%</b>

<sup>75</sup> The proportion of SIM-only out-of-contract customers as at 30 November 2019 and 2020. This table contains data for 12-month fixed term contracts only.

4.13 Overall, the analysis presented above indicates that, with the exception of Three and to a lesser extent O2, the proportion of each provider's bundled and SIM-only out-of-contract customers were broadly stable in 2019 and 2020. The proportion of bundled customers who were out of contract was unchanged over this period at 11%, while the proportion of SIM-only customers who were out of contract fell over this period. This reduction contributed to a slight reduction in the overall proportion of mobile customers who were out of contract, from 27% in 2019 to 25% in 2020.

### **SIM-only customers tend to spend more time out of contract than bundled customers**

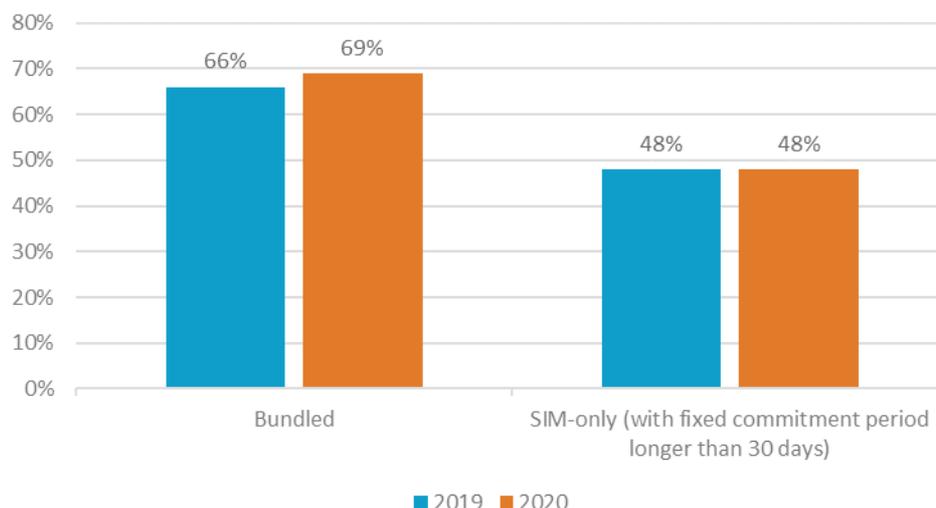
4.14 We have compared the amount of time that bundled and SIM-only mobile customers spend out of contract in order to understand whether customers on different contract types are more likely to engage sooner after the end of their minimum contract period. As set out in Figure 4.3 below, we find that customers on bundled contracts are less likely to stay out of contract for longer periods (more than one year) compared to SIM-only customers. In 2020, 69% of out-of-contract bundled customers engaged (re-contracted or switched) within a year, compared to 48% of out of contract SIM-only customers. As such, not only are there fewer bundled customers who are out of contract compared to SIM-only customers, but those who do go out-of-contract tend to engage sooner than SIM-only customers.

4.15 We also found that the proportion of bundled out-of-contract customers who engaged within a year increased from 66% in 2019 to 69% in 2020.<sup>76</sup> The proportion of out-of-contract SIM-only customers who engaged within a year contract remained constant over the same period.

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<sup>76</sup> Furthermore, the proportion of bundled customers who remained out of contract for 2 years or more also reduced from 19% in 2019 compared to 16% in 2020.

**Figure 4.3: Proportion of out-of-contract customers who engage within a year by contract type, 2019 compared to 2020 <sup>77</sup>**



## **We have examined changes in engagement among mobile customers since the introduction of ECNs**

4.16 In order to gain a deeper understanding of the extent to which engagement among mobile customers has changed from 2019 to 2020, we obtained three consecutive months of aggregated data from five of the largest mobile providers in the UK from September to November in both 2019 and 2020. This has allowed us to observe any action taken by customers on both bundled and SIM-only contracts whose minimum contract periods ended either in the weeks immediately before or after their contract ended.<sup>78</sup> Specifically, we can identify whether customers:

- re-contracted with their existing provider
- switched to another provider;<sup>79</sup> or
- remained out-of-contract.

4.17 We have compared the extent to which customer engagement has changed from 2019 to 2020 by assessing whether those customers whose minimum contract period was due to

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<sup>77</sup> Figures are based on a comparison of November 2019 to November 2020.

<sup>78</sup> We are not able to look at the engagement of split contract customers or those customers on a 30-day rolling SIM-only contract in this report. Providers are not required to send customers on rolling contracts an ECN. Please note a large proportion of split-contracts are sold with a rolling airtime contract these customers would not be eligible to receive an ECN.

<sup>79</sup> Although we cannot be certain that all customers who left their provider switched to another provider, we believe that this is likely to have occurred in most cases. However, we recognise that some customers may leave their provider and cease to take a mobile service at all.

end in a given month re-contracted with their existing provider or switched to an alternative provider.

## The introduction of end-of-contract notifications appears to have prompted an increase in engagement among mobile customers

- 4.18 We compare the extent to which customer engagement increased from 2019 to 2020 by assessing the extent to which customers whose contracts were due to end within the relevant period in each year re-contracted with their existing provider or switched to an alternative provider (both for bundled and SIM-only contracts). Analysing three months of consecutive data allows us to understand, for those customers who engage, how near the customer’s contract end date that engagement occurs.
- 4.19 As set out in Table 4.3 below, when looking at engagement of bundled customers across all the major providers, we found that engagement among customers whose contracts ended in September 2020 was higher compared to customers in the same position in September 2019. Bundled customers were already highly engaged in 2019, with 70% of those whose contracts ended in September 2019 engaging in the three months prior to, or three months after, their contract ended. However, by September 2020, this had increased by six percentage points to 76% within the equivalent period. In both 2019 and 2020, the majority of customer engagement occurred during the period from 40 days before to 30 days after their contract was due to end. However, in 2020, there was an even higher proportion of customers who engaged within this period, coinciding with the period in which these customers would have received, and potentially acted on, an ECN. This indicates that ECNs may have had an impact on the improvement in customer engagement from 2019 to 2020.

**Table 4.3: Proportion of bundled customers who engaged before or after their end-of-contract (EOC) date – September 2019 to September 2020**

	September 2019		September 2020	
	% of bundled customers who engaged 40 days before to 30 days after EOC	Total % of bundled customers who engaged*	% of bundled customers who engaged 40 days before to 30 days after EOC	Total % of bundled customers who engaged*
<b>EE</b>	47%	65%	49%	65%
<b>O2</b>	70%	86%	79%	96%
<b>Vodafone</b>	50%	66%	66%	77%
<b>Three</b>	64%	79%	70%	84%
<b>Tesco</b>	35%	43%	42%	48%

	September 2019		September 2020	
	% of bundled customers who engaged 40 days before to 30 days after EOC	Total % of bundled customers who engaged*	% of bundled customers who engaged 40 days before to 30 days after EOC	Total % of bundled customers who engaged*
<b>Total</b>	<b>54%</b>	<b>70%</b>	<b>63%</b>	<b>76%</b>

\* engaged in the three months prior to, or three months after, their contract ended

4.20 There was an increase in total customer engagement among all providers, with the exception of EE, whose total engagement remained unchanged at 65%. Further, engagement levels in 2020 were high among all providers, especially O2 (96%), Three (84%) and Vodafone (77%). Tesco Mobile (48%) had the lowest overall engagement score when compared to other providers. Among all five providers, the majority of customer engagement activity occurred during the period from 40 days before to 30 days their contract was due to end. This was true in both 2019 and 2020.

4.21 We have also looked at engagement among SIM-only customers whose contracts were due to end in September 2019 and September 2020. The results of this are set out in Table 4.4 below. Similar to bundled customers, there was an increase in customer engagement across all providers over this period although SIM-only customers were generally significantly less engaged than bundled customers. 27% of SIM-only customers whose contracts ended in September 2019 engaged in the three months prior to, or three months after, their contract ended, and this increased by five percentage points to 32% by September 2020. Similarly, the proportion of these customers who engaged during the period 40 days before to 30 days after they went out of contract also increased over the year as a proportion of total engagement.

**Table 4.4: Proportion of SIM-only customers who engaged before or after their end-of-contract (EOC) date – September 2019 to September 2020**

	September 2019		September 2020	
	% of SIM-only customers who engaged 40 days before to 30 days after EOC	Total % of SIM-only customers who engaged*	% of SIM-only customers who engaged 40 days before to 30 days after EOC	Total % of SIM-only customers who engaged*
<b>EE</b>	12%	20%	15%	23%
<b>O2</b>	14%	26%	17%	29%
<b>Vodafone</b>	24%	33%	15%	22%
<b>Three</b>	22%	32%	34%	59%

	September 2019		September 2020	
	% of SIM-only customers who engaged 40 days before to 30 days after EOC	Total % of SIM-only customers who engaged*	% of SIM-only customers who engaged 40 days before to 30 days after EOC	Total % of SIM-only customers who engaged*
<b>Tesco</b>	14%	19%	24%	29%
<b>Total</b>	<b>17%</b>	<b>27%</b>	<b>21%</b>	<b>32%</b>

\* engaged in the three months prior to, or three months after, their contract ended

4.22 All providers saw an increase in engagement of their SIM-only customers from September 2019 to September 2020 with the exception of Vodafone. Three saw the biggest increase in engagement with the proportion of its SIM-only customers engaging in the three months prior to, or the three months after, their contract was due to end increasing by 27 percentage points from 32% in September 2019 to 59% in September 2020. This is broadly consistent with the data set out in Table 4.2, which shows that the overall proportion of Three's SIM-only customers who were out-of-contract reduced from 47% in 2019 to 15% in 2020.

4.23 Tesco also saw a significant increase of 10 percentage points in total customer engagement, from 19% in 2019 to 29% in 2020. EE and O2 recorded smaller increases in engagement. Overall, these figures indicate that ECNs may have had a positive effect on customer engagement among SIM-only customers.

### Engagement among out-of-contract customers is lower, especially for SIM-only customers

4.24 As we have done with broadband in section 3, we have compared the proportion of mobile customers who were already out-of-contract as of 1 September 2019 and 1 September 2020 and who subsequently engaged within the following 90 days. Some of these customers may have been out-of-contract for a relatively short amount of time, while others may have been out-of-contract for much longer. While customers whose contracts ended during or after February 2020 should have received an end-of-contract notification, relatively few out-of-contract customers had received an annual best tariff notification (ABTN) by September 2020, as most providers only began sending these towards the end of the implementation period for ABTNs which was February 2021. Therefore, assessing changes in engagement among this cohort of customers allows us to observe whether there has been a more general increase in consumer engagement, including for reasons unrelated to receiving an end-of-contract notification or annual best tariff notification.

4.25 There was a small reduction in engagement among bundled out-of-contract customers from 2019 to 2020. Overall, the proportion of out-of-contract customers who engaged

within 90 days from 1 September 2020 compared to 1 September 2019 reduced marginally by three percentage points from 28% in 2019 to 25% in 2020.

**Table 4.5: proportion of out-of-contract bundled customers who engaged in the subsequent 90-day period**

	September 2019 % of bundled customers who engaged within 90 days	September 2020 % of bundled customers who engaged within 90 days
EE	33%	26%
O2	24%	22%
Vodafone	20%	27%
Three	31%	26%
Tesco	21%	13%
<b>Total</b>	<b>28%</b>	<b>25%</b>

- 4.26 When looking at the individual providers, engagement within the same 90-day period reduced over the year across all providers, with the exception of Vodafone, who bucked the trend with engagement increasing by seven percentage points from 20% in September 2019 to 27% in September 2020. In September 2020, Vodafone had the highest proportion of engagement amongst its bundled out-of-contract customers within the following 90 days when compared to other providers.
- 4.27 Tesco saw the biggest reduction in the proportion of out-of-contract bundled customers who engaged, with a fall in engagement of eight percentage points from 21% in 2019 to 13% in 2020. EE's out-of-contract bundled customers also saw a significant reduction in engagement within the same 90-day period from 33% in 2019 to 26% in 2020.
- 4.28 We have also examined changes in engagement among SIM-only customers who were already out-of-contract at the start of September 2019 and September 2020, as set out in Table 4.6 below. In contrast to bundled customers, the engagement of SIM-only out-of-contract customers across all mobile providers increased from 14% in September 2019 to 19% in September 2020. However, as we set out in paragraph 4.12 this increase was driven solely by the steep increase in engagement amongst Three's SIM-only customers which rose from 19% in 2019 to 62% in 2020, which Three has told us is a result of a marketing campaign.

**Table 4.6: proportion of out-of-contract SIM-only customers who engaged in the subsequent 90-day period**

	September 2019	September 2020
	% of SIM-only customers who engaged within 90 days	% of SIM-only customers who engaged within 90 days
EE	13%	11%
O2	13%	11%
Vodafone	12%	13%
Three	19%	62%
Tesco Mobile	14%	6%
<b>Total</b>	<b>14%</b>	<b>19%</b>

4.29 The engagement of EE, O2 and Vodafone’s SIM-only out-of-contract customers remained roughly stable from 2019 to 2020. Tesco Mobile saw a significant reduction in engagement from 14% in 2019 to 6% in 2020. With the exception of Three’s customers in 2020, engagement among SIM-only out-of-contract customers was low, which may reflect the weaker incentives for SIM-only out-of-contract customers to engage compared to bundled out-of-contract customers.

### **We welcome the overall increase in engagement among mobile customers since ECNs came into effect, but there is room for further improvement**

4.30 Overall, we welcome the increase in customer engagement from 2019 to 2020 for both bundled and SIM-only customers who were approaching the end of their contract. While the increase in engagement among mobile customers was not as significant as for broadband customers, we note that prior to the introduction of ECNs some mobile providers already sent notifications to customers specifying that they were coming to the end of their minimum contract period.<sup>80</sup> As broadband providers tended not to send such notifications prior to the introduction of ECNs, this may partly explain why the increase in engagement among mobile customers was less pronounced than for broadband.

4.31 In both 2019 and 2020, the majority of mobile customer engagement occurred during the period from 40 days before to 30 days after their contract was due to end. However, in 2020, there was an even higher proportion of mobile customers who engaged within this period, coinciding with the period in which these customers would have received, and potentially acted on, an ECN. This indicates that ECNs may have had a positive effect on

<sup>80</sup> Ofcom, July 2018. [Helping consumers to engage in communications markets: Consultation on end-of-contract and out-of-contract notifications](#) paragraph 3.8.

customer engagement following their introduction in February 2020, although we recognise that other factors, such as an inclination among some customers to reduce their household bills during the pandemic, may also have contributed.

- 4.32 Engagement among mobile customers who were already out-of-contract was mixed, with a slight reduction in the proportion of bundled customers who engaged in 2020 compared to 2019, and an increase in the proportion of SIM-only customers who engaged over the same period (although this was driven solely by one provider). Lower rates of engagement among out-of-contract customers may reflect the fact many mobile customers may rationally choose to stay out of contract, where they are not be able to find an equivalent tariff for a cheaper price elsewhere. Our customer research (see section 5) suggests that 61% of mobile customers who knew they were out-of-contract were happy they were on the best deal for their needs. In addition, some customers may choose to remain out-of-contract until a certain handset is launched so they can re-contract with their provider or switch to another provider to purchase the handset on more favourable terms.
- 4.33 Furthermore, at the time at which we undertook our analysis, very few customers would have received an ABTN, as most providers only began sending these in February 2021. These notifications are intended for customers who have been out-of-contract for more than a year. There is therefore further potential for improvements in engagement as more customers receive annual best tariff notifications - especially people currently on bundled out-of-contract deals. We will continue to monitor the extent to which ECNs and ABTNs improve customer engagement over time.

## **The impact on prices for out-of-contract bundled customers**

- 4.34 In our 2019 mobile handset review, we set out our concern that a proportion of bundled customers across several mobile providers were overpaying for their contract as a consequence of being out-of-contract. We were concerned that these customers were effectively continuing to be charged for a handset which they already owned when they could pay less for an equivalent airtime service by switching to a SIM only deal.
- 4.35 To address these concerns, we secured commitments from all major mobile providers (apart from Three) to apply a discount to the monthly price paid by their bundled customers that were (or would become) out-of-contract. The discounts applied by O2, Tesco Mobile and Virgin Mobile reduced the monthly payments made by out-of-contract bundled customers to the price of a comparable SIM-only deal. These discounts are applied from the date a customer moves out of their minimum contract period and therefore eliminate the risk of any overpayment made by customers of these providers.
- 4.36 Tesco Mobile and Virgin Mobile have since confirmed that their commitment was applied from February 2020 and that, as at November 2020, customers who were eligible had benefited from the price reduction. O2 has also confirmed the same for its direct customers and those acquired indirectly via Carphone Warehouse, reflecting the scope of

the commitment we secured from O2 in 2019. On this basis, we have excluded Tesco Mobile, Virgin Mobile and O2's customers from the overpayment analysis set out in this report.<sup>81</sup>

- 4.37 EE and Vodafone committed to reduce the monthly price paid by their bundled out-of-contract customers by 10% and £5 respectively. These discounts do not apply until the customer has been out of contract for three months. Therefore, although Vodafone and EE committed to reduce prices for their bundled out-of-contract customers, these customers continue to overpay, although to a lesser extent, relative to the price of the nearest comparable SIM-only tariff. Three did not commit to applying any kind of discount to the monthly payment of its out of contract bundled customers meaning that these customers continue to overpay in full, compared to what they might save if they moved to an equivalent SIM only deal. We have therefore included customers of EE, Vodafone and Three in the updated overpayment analysis set out in this report.
- 4.38 To carry out this analysis, we obtained three months of customer level data for pay monthly bundled customers from the major mobile providers that sell bundled contracts covering the period from September to December 2020.<sup>82</sup> As we did for our 2019 mobile handsets review, we have used this data together with information on each provider's SIM-only tariffs to assess the extent to which bundled customers who are out of contract are overpaying. More specifically we have compared inclusive minutes, texts and data allowances of customers with bundled contracts with the equivalent SIM-only tariff sold by the same provider. We have also used customer data to identify the extent of variation in overpayment and compare those findings to those in the 2019 mobile report. The results of this analysis are set out in the following paragraphs.

### **The overall annual aggregate overpayment among bundled out-of-contract customers has decreased significantly since our commitments took effect**

- 4.39 In our 2019 mobile handset report we found that 1.4 million bundled out-of-contract customers were overpaying for their contract and would save money by switching to an equivalent SIM-only deal. Our analysis showed that these customers were on average overpaying by £74 a year each, which amounted to £182 million on aggregate.
- 4.40 We calculated these figures by estimating the savings that bundled out-of-contract customers would save by switching to a SIM-only deal. More specifically, we matched each out-of-contract bundled customer to a comparable 30-day SIM-only tariff with their current provider which had at least an equal amount of minutes, texts and data as included

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<sup>81</sup> The commitment made by O2 only applied to its direct customers and indirect Carphone Warehouse customers. There is therefore a small proportion of O2's indirect bundled out-of-contract customers who continue to overpay.

<sup>82</sup> We obtained the same data in 2018 from the six major mobile providers, which we used to look at overpayment made by out of contract bundled customers as part of our 2019 mobile handset review.

in their bundled plan.<sup>83</sup> In order to calculate the saving we compared the difference between the price the customer was paying on their bundled contract to the price they would pay on a comparable SIM-only contract.<sup>84</sup>

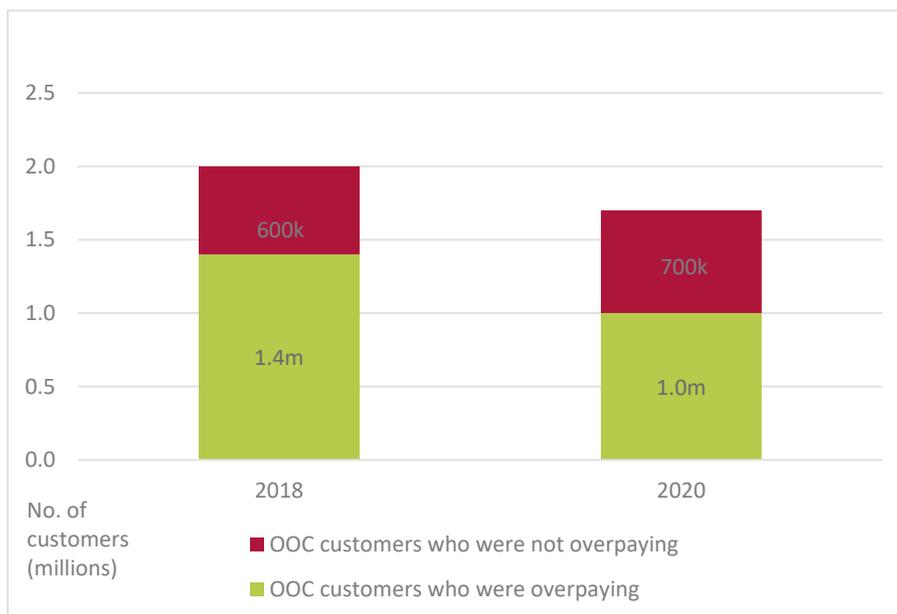
- 4.41 Our analysis also showed that some customers were better off staying on an out-of-contract bundled deal. We found that, of the 2 million bundled customers who were out of contract, 27% (approximately 600,000) of these customers would not have saved money by switching to an equivalent SIM-only contract, and would have instead on average have paid an extra £6 a month by switching.
- 4.42 We have now repeated our overpayment analysis for 2020 using data obtained from EE, Vodafone and Three. We found that in 2020 the amount that bundled out-of-contract customers could save by switching to a cheaper SIM-only deal reduced significantly from £182 million to £83 million. We welcome this very substantial reduction in overpayment since the commitments we secured took effect.
- 4.43 There are several factors which contribute to this reduction in overpayment, in addition to our commitments. First, as set out in paragraph 4.10, the number of bundled customers who were out of contract across all major providers reduced by 300,000 from 2 million customers in 2018 to 1.7 million customers in 2020. As such, the total number of customers who could potentially overpay has fallen.
- 4.44 Second, of the 1.7 million bundled customers who were out of contract in 2020, 68% of these customers were overpaying as a result of not re-contracting or switching to another provider. This means that the remaining 32% were better off staying out-of-contract because there were no SIM-only tariffs available to them which offered an equivalent service for a better price. The proportion of bundled out-of-contract customers who were overpaying in 2018 was 73%. This means that the total number of bundled customers who were overpaying reduced from 1.4 million customers in 2018 to 1.0 million customers in 2020, significantly reducing the overall aggregate annual overpayment. This is set out in Figure 4.4 below.

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<sup>83</sup> We used 30-day rolling SIM-only tariffs in our calculations as a comparator because although 30-day SIM-only tariffs tend to be more expensive compared to fixed SIM-only contracts, 30-day contracts reflected the flexibility of being out of contract. When carrying our analysis we have excluded add-ons such as roaming, or additional services such as Spotify and Netflix

<sup>84</sup> For a more detailed explanation of our methodology on calculating these savings please see Ofcom, July 2019, [Helping consumers to get better deals in communications markets: mobile handsets](#), paragraphs A5.35-A5.52.

**Figure 4.4 – Total number of bundled out-of-contract customers broken down by those who were overpaying and those who were not overpaying, 2018 and 2020**



4.45 Third, there has also been a reduction in the amount of time that bundled customers spend out-of-contract. In 2018, 38% of bundled customers had been out of contract for over a year. However, in 2020 the proportion of bundled customers who spent over a year out-of-contract reduced by seven percentage points to 31%. As a result, fewer bundled customers were overpaying for longer periods of time, subsequently reducing the total overpayment.

### **Despite aggregate overpayment reducing significantly, the level of overpayment per customer has increased since 2018**

4.46 Despite the significant reduction in aggregate overpayment from £182m to £83m, the average annual overpayment across *all* out-of-contract bundled customers increased from £37 in 2018 to just under £41 in 2020.

4.47 The average monthly overpayment for *all* out-of-contract bundled customers also increased from £5.91 in 2018 to £8.43 in 2020 across the three providers for whom this issue remains.<sup>85</sup> When looking at the individual providers, the most significant increase in average monthly overpayment was among Three’s out-of-contract bundled customers, whose average monthly overpayment increased substantially from £2.61 in 2018 to £11.50 in 2020. Vodafone’s average monthly overpayment also increased from £11.32 in 2018 to £18.13 – the highest monthly overpayment of all providers. By contrast, the average

<sup>85</sup> All out-of-contract customers includes those bundled customers who are better off staying out-of-contract and who are not overpaying as a result of doing so.

overpayment of EE out-of-contract bundled customers reduced from £5.11 in 2018 to £2.31 in 2020.

**Table 4.7: Monthly overpayments of different groups of customers, by provider comparing November 2018 to November 2020**

Provider	All out-of-contract customers		Out-of-contract customers who are overpaying (would save by switching)	
	Overpayment amount 2018	Overpayment amount 2020	Overpayment amount 2018	Overpayment amount 2020
<b>Average overpayment across the three providers</b>	<b>£5.91</b>	<b>£8.43</b>	<b>£10.83</b>	<b>£16.00</b>
EE	£5.11	£2.31	£9.43	£11.69
Vodafone	£11.32	£18.13	£13.51	£20.23
Three	£2.61	£11.50	£12.42	£17.25

4.48 We have also looked at the average monthly overpayment for those customers who would save money by switching to a comparable SIM-only deal. We found that the average annual overpayment made by these customers has increased by £9 from £74 in 2018 to just over £83 in 2020, with the average monthly overpayment being £16.00. This is an increase in the amount they could save by switching to a comparable SIM only deal from 2018 when this was £10.83.

4.49 This increase has taken place for all three mobile providers although Vodafone has seen the most significant rise in the average monthly overpayment amongst its customers who were overpaying from £13.51 per month in 2018 (when it had the highest overpayment), to £20.23 in 2020. In 2020, we also found that Three’s bundled out-of-contract customers were overpaying by £17.25 each month - an increase of £4.83 since 2018.

4.50 Those EE customers who were overpaying for their bundled contract in 2020 were doing so on average, by £11.69 per month. This has increased by over £2 per month since 2018, when these customers were on average overpaying by £9.43 per month.

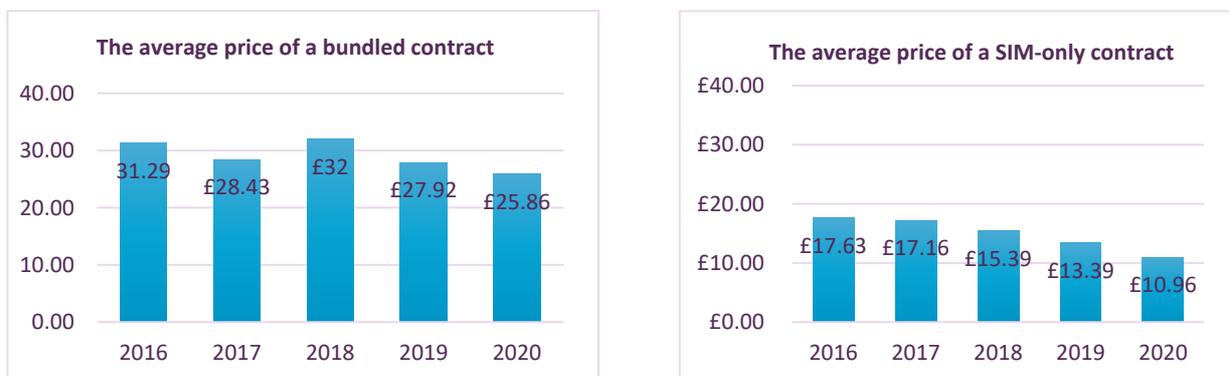
4.51 The increase in the average monthly overpayment paid by out-of-contract bundled customers since 2018 is likely to be explained by the following market factors:

- a) **The price of a bundled contract peaked in 2018.** As set out in Figure 4.5 below, in 2018 the average price of a bundled contract was relatively high. In 2018 the average monthly price of buying a bundled contract was more expensive than in 2020. As a result, a customer on a bundled deal in 2018 would have been paying £32 per month compared to £25.86 in 2020.

**b) SIM-only prices have been falling for some time, especially for packages with higher data allowances.** The average cost of a SIM-only contract (based on average use) fell by 10% in 2020 despite the demand for voice and data increasing continuing a trend from previous years. With the average SIM-only contract costing less, those bundled customers who reached the end of their minimum contract period in 2020 were not only likely to be paying a relatively higher price for their bundled contract compared to previous years, given bundled contract prices were at the highest in 2018, but the potential savings from switching to a SIM-only deal were likely to have been greater.

4.52 As bundled contracts typically have a minimum commitment period of 18-24 months, customers who purchased bundled contracts at relatively high prices in 2018 are likely to have reached the end of their minimum contract period in 2020. As SIM-only prices were significantly lower in 2020, this in turn means that the average annual overpayment of those customers who could have saved by switching is higher as a result, even when taking into account the commitments from EE and Vodafone to reduce prices for bundled out-of-contract customers after three months. As such, the increase in overpayment per customer is likely to reflect historic pricing dynamics over the period from 2018 to 2020 and is not necessarily an indication that overpayment per customer will continue to increase over time, as this will be driven by a combination of both the prices of bundled contracts available at the time, and pricing in the SIM-only market.<sup>86</sup>

**Figure 4.5: Weighted average monthly price of bundled contract and the weighted average price of a SIM-only contract. Comparing 2016 - 2020**



Source: Ofcom using data supplied by Teligon, Strategy Analytics.<sup>87</sup>

<sup>86</sup> Note that these prices are in part driven by handset prices.

<sup>87</sup> Note: Weighted average tariff for primary providers; average pricing is across six mobile usage profiles as outlined in [Pricing Trends for Communications Services in the UK](#) report; note the number of subscribers varies across the different profiles; data relates to July in each year except 2020, when it relates to October; adjusted for CPI (October 2020 prices); prices excluding additional usage charges. Whilst each type of mobile connection usage profile has been assigned a low, mid or high range handset across the time series, note there are large numbers of handsets available at varying prices.

## **Overall, there has been a significant reduction in the aggregate overpayment which is likely to continue as the market evolves**

- 4.53 Since 2018, the total amount by which bundled out-of-contract customers overpay has reduced significantly by almost £100m to £83 million. While we recognise that some bundled out-of-contract customers continue to pay more than they would were they to switch to a SIM only deal, it is likely that the issue of overpayment will continue to decline over time as the number of customers on bundled contracts continues to decrease and more customers opt instead for SIM-only or split contracts.
- 4.54 Current trends in the mobile market indicate that mobile providers are changing the way in which they sell handsets and airtime in response to more expensive handsets and a desire on the part of consumers to spread the cost of the handset over a longer period of time. Some providers have stopped selling bundled contracts completely.
- 4.55 We also expect that the introduction of ABTNs will contribute further to the reduction in overpayment, as bundled customers are made aware by their provider that they are no longer in their minimum commitment period, as well as their current monthly subscription price and the best tariffs available to them.

## **Summary**

- 4.56 In summary, our assessment is that the initial impact of the measures introduced to help mobile customers get better deals has been positive. In particular, we note that:
- a) The proportion of mobile customers who were out-of-contract fell slightly from 2019 to 2020. Engagement was higher among customers whose contracts ended in 2020, after ECNs came into effect, compared to 2019. As more people receive ECNs, we would expect the overall proportion of mobile customers who are out-of-contract to continue to reduce.
  - b) Engagement among out-of-contract customers was lower than those who were approaching the end of their contract. As more people receive annual best tariff notifications, we would expect engagement to increase, especially among bundled customers for whom there are stronger incentives to engage.
  - c) There has been a significant reduction in the annual aggregate overpayment among bundled out-of-contract customers from 2018 to 2020. Broader market trends, including the move away from bundled contracts towards greater uptake of SIM-only and split contracts, mean that the issue of overpayment will continue to decline over time.
  - d) Although there has been an increase in the average overpayment per customer among bundled out-of-contract customers, this is likely to reflect historic pricing trends over the last few years and is not necessarily an indication that this trend will continue, nor a cause for concern.

4.57 Given the significant progress made in tackling the issue of overpayment, we do not consider that further intervention from Ofcom is necessary at this time. We will continue to monitor pricing trends in the mobile market and report on these in our pricing trends in communications services report. We will also continue to monitor the impact of ECNs and ABTNs in improving customer engagement over time.

## 5. Implementation of end-of-contract notifications: impact on engagement of different approaches

- 5.1 As set out in chapters 3 and 4, engagement among customers increased from 2019 to 2020, especially among broadband customers, indicating that ECNs are having a positive impact on customer engagement. In this chapter, we look in more detail at how providers have chosen to implement ECNs and whether this has had a material impact on customer engagement with their broadband and mobile services.
- 5.2 In particular, we examine:
- a) How the six largest broadband providers – BT, EE, Plusnet, Sky, Talk Talk and Virgin Media - implemented ECNs and what impact this has had on customer engagement. To do this, we have looked at the ECNs they sent in September 2020, and examined the actions taken by customers who received an ECN, to see what impact the timing, method and content of the notification had on engagement.<sup>88</sup>
  - b) How people responded to receiving an ECN based on the findings of customer research, carried out in collaboration with a number of communications providers, to further our understanding of how people responded to receiving an ECN. This consumer research covers both the broadband and mobile markets.
- 5.3 Taken together, this analysis allows us to better understand the extent to which variation in how providers have chosen to implement ECNs has an impact on customer engagement.

### Key findings

In summary, we found that:

- There was **no systematic difference in engagement driven by the timing, method or content of broadband ECNs**, relative to each provider’s average level of engagement.<sup>89</sup>
- Our research amongst both broadband and mobile customers indicates that **customers find ECNs helpful**. Awareness of ECNs is high among customers who received them, and has **prompted a significant proportion of customers to take action that they may not otherwise have taken**.

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<sup>88</sup> The data we gathered covered ECNs sent in July, August, September and October 2020. For comparability with chapter 3, in this chapter we present results from September 2020. Our analysis shows that engagement was broadly similar across each of the four months, so we consider September 2020 to be a good example. In both chapter 3 and here, by “engagement” we mean action to either re-contract with their existing provider, or to switch to a new provider.

<sup>89</sup> In this analysis, we focused on broadband providers, rather than mobile providers, primarily because the data we obtained from broadband providers allowed us to make a more reliable assessment of the impact of timing, format and content changes on customer engagement.

Since ECNs were sent for the first time during the Covid-19 pandemic, provider and customer behaviour may have been atypical during this time. We may further review the impact of ECNs and ABTNs, including in the mobile market, as they become more widely established.

## Providers must comply with our rules on ECNs, but have some discretion over their implementation

- 5.4 As set out in chapter 2, providers must follow our rules and guidance when sending ECNs. In particular, we require providers to inform customers about any changes to their price and services at the end of their minimum contract period, and about the best tariffs available from their provider, as well as discounts available to new customers (so that customers are made aware of the benefits of switching). The notification must include at least one SIM-only contract for customers on bundled mobile handset and airtime contracts. We expect providers to send ECNs to their customers between 40 and 10 days before the end date of their contract.<sup>90</sup>
- 5.5 In addition, all customers who are out-of-contract must be given information about their contract and their provider's best tariffs at least annually via ABTNs.<sup>91</sup> Since most providers had not begun sending ABTNs during the time periods for which we gathered data for this report, we do not report on their engagement and impact here.
- 5.6 Nevertheless, within these parameters, providers have some discretion about how they implement ECNs. For example, they can choose when in the 40-10 day period to send this message, and which durable medium to use to send it (letter, email or SMS).<sup>92</sup> They can also exercise some discretion about precisely which offers they include.
- 5.7 Given potential differences in the way providers can implement ECNs, we have examined whether these differences might lead to different levels of engagement. We require providers to keep records of the notifications they send. We have used this information to conduct our analysis.<sup>93</sup>

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<sup>90</sup> See footnote 13 in section 2 for a full description of all our of rules regarding the content, timing and format of ECNs and ABTNs. ECNs must be sent in a timely manner, and as per our guidance that CPs should send ECNs between 40 and 10 days before the end of the fixed commitment period, we focus our analysis here on that time period.

<sup>91</sup> Providers had until February 2021 to begin sending ABTNs – although they could choose to do so sooner.

<sup>92</sup> We do not consider that a voice call is a durable medium.

<sup>93</sup> Ofcom, May 2019. [Helping consumers get better deals: Statement on end-of-contract notifications and annual best tariff information](#), paragraphs 9.23-9.27.

## **Broadband customers are more engaged, and we found no systematic difference in engagement driven by the timing, method or content of ECNs**

### **Almost one third of customers who received an ECN in September 2020 engaged within 30 days, and almost half engaged by the end of November**

- 5.8 In chapter 3, we set out our findings on ECN engagement in the broadband market, using data about providers' whole customer bases. We found that that broadband customers were more engaged since our rules on ECNs came into effect. Among customers whose contracts ended in September 2020, we found that nearly two thirds (62%) engaged in the three months prior to, or three months after, their contract ended; the significant majority of this engagement (47%) occurred in the period in which customers would have been sent an ECN. We also observed a significant increase in engagement among vulnerable customers since our ECN rules came into effect. We found that this increase meant that vulnerable customers were slightly more likely to engage than customers overall.
- 5.9 The analysis set out in chapter 3 examined customers' engagement activity before and after their contracts were due to end. To supplement our understanding of engagement, and in particular of whether different types of ECN were more or less likely to drive engagement, we have also looked specifically at those customers who we know were sent an ECN by their provider, and analysed how they engaged after they were sent an ECN. Our analysis of this data broadly reflects the findings we described in chapter 3, with broadband customers being more engaged since ECNs came into effect and most engagement happening near to the customer's contract end date.
- 5.10 Looking across the six providers, among customers who were sent an ECN in September 2020, 30% engaged within 30 days of being sent that ECN. We also found that between two and three months later, by end of November 2020, over half as many people again engaged – up to a total of 49%.<sup>94</sup> There was variation among providers in the proportion of their customers who engaged, with some providers seeing only a quarter of their customers engage within 30 days of being sent an ECN in September 2020 while other providers saw nearly half (47%) of their customers engage in this period. There was a similarly wide range among providers for engaged up until the end of November 2020.
- 5.11 From this baseline of overall engagement, we can examine whether the way in which providers chose to implement ECNs led to any differences in customer engagement. Because there is variation in each provider's engagement overall, we have examined whether the choices providers made about implementation led to any noticeable

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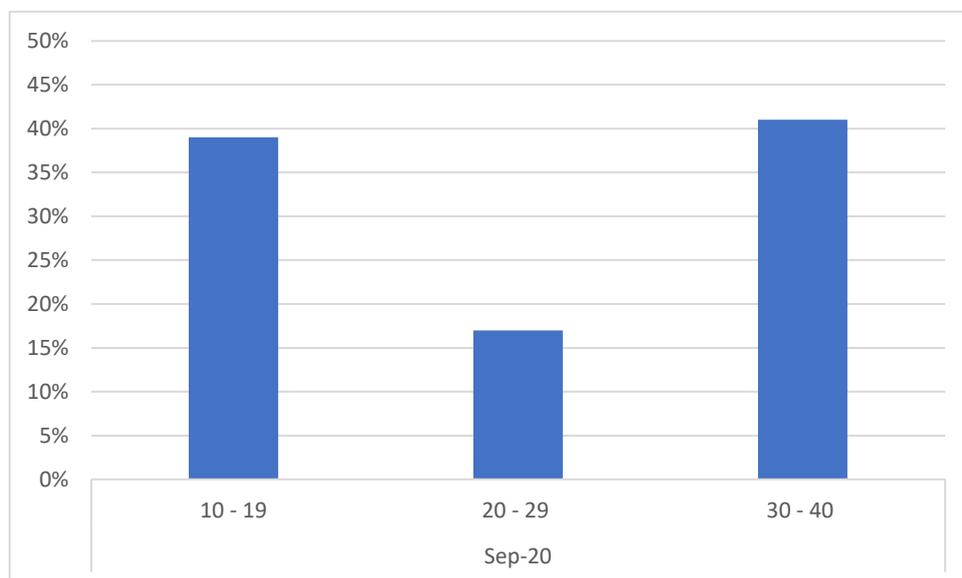
<sup>94</sup> The relatively lower engagement figures set out here, compared to those set out in chapter 3, are likely to reflect the narrower timeframe we use to examine engagement after an ECN was sent compared to the date on which customers' contracts were due to end.

difference in engagement compared to that provider’s average level of engagement overall. In September 2020, the six providers together sent a total of just under 450,000 ECNs.<sup>95</sup>

## Providers took different approaches to when they sent ECNs

5.12 We found providers chose to send ECNs to their customers at different times. Across the six providers, ECNs were most commonly sent between 30 and 40 days before the customer’s contract end date (41% of all ECNs sent in September 2020 were sent in this window), and between 10 and 19 days (39% in September 2020).

**Figure 5.1: Timing of ECN messages: across all providers – how far in advance of the expected end-of-contract date ECNs were sent, by 10 day increments, September 2020<sup>96</sup>**

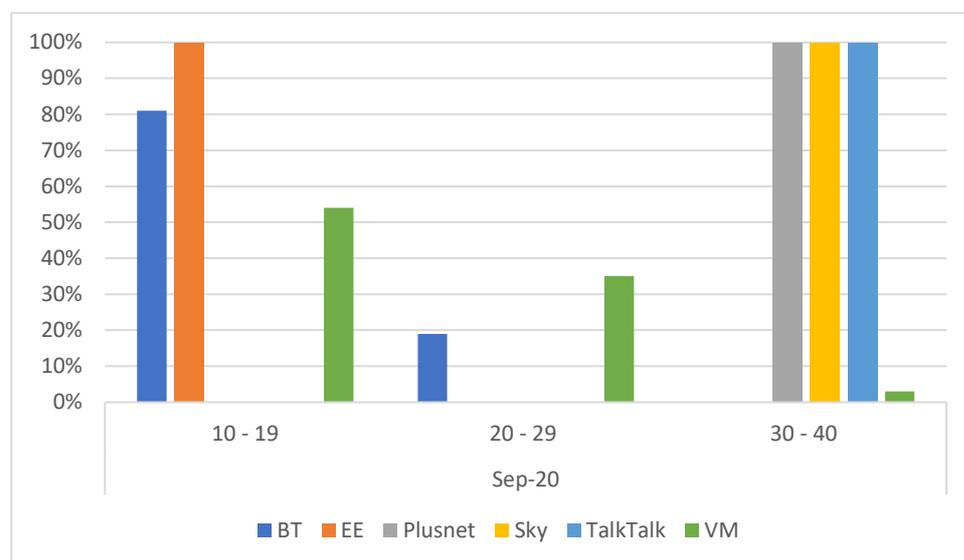


5.13 However, this masks some variation in when each provider chose to send its ECNs. In September 2020, Sky, TalkTalk and Plusnet sent their ECNs between 30 and 40 days before the customer’s end data. Sky and Plusnet systematically sent their ECNs a specific number of days before the end of a customer’s contract, within the 40-30 day window. By contrast, EE sent all of their ECNs, and BT sent 81% of theirs, between 10 and 19 days before the customer’s end date. Virgin Media sent ECNs throughout the 40–10 day window.

<sup>95</sup> Over the four months for which we have data (July, August, September and October 2020), the six providers sent just over 2.3m ECNs. For comparability with chapter 3, for the rest of this chapter we look only at September 2020.

<sup>96</sup> Across the four months for which we have data, some ECNs were sent outside of the 40 – 10 day window. As part of our wider monitoring work, we will be following up with providers and will continue to monitor compliance.

**Figure 5.2: Timing of ECN messages: by provider – how far in advance of the expected end-of-contract date they were sent, by 10 day increments, September 2020<sup>97</sup>**



5.14 We looked at whether the timing of the ECN being sent drove any differences in how often customers engaged. For those providers who sent ECNs at different points within the 40 to 10 day window, we found that engagement was about the same as their overall levels of customer engagement, regardless of when the ECN was sent. Overall, we found that there was no systematic difference in engagement depending on the timing of the ECN, either across the market or for any individual provider.

### All broadband providers sent the vast majority of their ECNs via email

5.15 Email accounted for 92% of all ECNs sent during September 2020, with letters accounting for 8%. No broadband providers sent ECNs by SMS. While all providers sent some ECNs by letter, only BT and Virgin Media used this method for a substantial proportion of their ECNs - sending 17% and 11% respectively of their September 2020 ECNs via letter, with other providers sending no more than 5% of their ECNs by letter during this period.

5.16 We also found that there was no systematic difference in engagement between customers who received an email and those who received a letter. As noted above, among customers who received an ECN in September 2020, 49% engaged by the end of November 2020. There was little difference in engagement depending on whether the ECN was sent by email or letter with 49% of those who received an email engaging, compared to 47% of

<sup>97</sup> See footnote 96 regarding ECNs sent outside of the 40 – 10 day window. Note that bars in this chart may not sum to 100% due to ECNs sent outside of this window.

those who received a letter.<sup>98</sup> There was also little difference among providers, the exception to this is TalkTalk, whose customers who received a letter showed lower engagement than those who received an email.

## Providers varied in the kinds of offers that they included in their ECNs

5.17 We examined which kinds of offers providers chose to include in their ECNs, both according to our requirements and where there was provider discretion about what to include. The types of offers that providers included in their ECNs are set out in Table 5.1 below:

**Table 5.1: types of offers included in ECNs**

	<b>Do nothing</b>	<b>Similar</b>	<b>Upgrade</b>	<b>Unavailable</b>
<b>Description</b>	The price the customer would pay for a continuation of their current package, if they took no action. As we noted in chapter 2, broadband deals tend to have an automatic price rise at the end of the minimum contract period.	A deal that matched the customer’s current package, taking into account service and usage, at the cheapest price available to the customer receiving the advice.	A deal that offered more than the customer’s current tariff, typically at an increased price and with benefits in terms of faster speeds or a choice of add-ons.	A deal that was available to new customers only, and not available for existing customers to re-contract onto.
<b>Required by Ofcom’s rules and guidance?</b>	Yes	Yes	No – providers can choose to include at their discretion	Yes – if the provider restricts some deals to new customers only

5.18 All providers showed their customers offers that were similar to their current deal, and available to them if they chose to recontract. However, providers differed in the extent to which they showed customers deals that were either an upgrade, or that were not available to existing customers.

<sup>98</sup> This pattern broadly held across all providers, and across all months for which we have data.

5.19 Across the six providers, the largest share of ECNs contained only an offer that was similar to the customer’s current deal, in addition to the ‘do nothing’ price (and this was true for all providers with the exception of BT). More than 85% of Sky’s and Plusnet’s ECNs only contained an offer that was similar to the customer’s current deal (and did not include an upgrade offer as well). EE and TalkTalk’s ECNs contained only a similar offer, and no upgrade offer, in around two thirds of cases. BT made heaviest use of offering upgrades to customers. It overwhelmingly showed customers an upgrade offer alongside a similar offer (included in 93% of ECNs in September 2020). Plusnet and Sky showed upgrade offers to 15% or fewer of their customers.

**Table 5.2: % of ECNs that contained offers in addition to the ‘do nothing’ option, September 2020, by provider**

CP	Sept 2020		
	Similar to current	Similar + upgrade	Similar + unavailable
BT	7%	93%	-
EE	65%	35%	-
Plusnet	85%	15%	-
Sky	88%	12%	-
TalkTalk	69%	31%	-
Virgin Media <sup>99</sup>	-	-	100%
<b>TOTAL</b>	<b>37%</b>	<b>23%</b>	<b>41%</b>

5.20 Our rules and guidance require providers to show customers the cheapest tariff available to any customer, based on similar services to those the customer currently receives. This means that where providers offer discounts to new customers only, existing customers will be made aware of the new customer price in their ECN, even if they are not eligible for it. Virgin Media was the only provider to show customers offers that were generally unavailable to them. This is because Virgin Media offers its deepest discounts to new customers, and deals available to new customers are not generally available to re-contracting customers. In all its ECNs, therefore, Virgin Media showed customers an offer

<sup>99</sup> Virgin Media cannot distinguish between “similar” and “upgrade” offers. It also sends the new customer price (that is generally unavailable to existing customers) to all customers.

that was either similar to, or an upgrade from, their current deal, plus an offer that was generally available to new customers only. BT, EE, Plusnet, Sky and TalkTalk on the other hand, did not show customers offers that were not available to them, because existing customers with these providers can recontract onto new deals at the same prices as new customers.

- 5.21 Given this difference in approach, we looked at whether customer engagement changed as a result of providers including particular offers in their ECNs. We found that, for some providers, engagement was higher among those customers who received an upgrade offer in addition to an offer similar to their current deal. In September 2020, BT's and Plusnet's customers who received an upgrade offer alongside a similar deal were more likely to engage than customers who just received a similar offer (BT: 43% vs 30%; Plusnet: 66% vs 62%). But this was not consistent across all providers. Sky and TalkTalk, on the other hand, saw slightly higher engagement among customers who received an offer similar to their current deal in September 2020, compared to those who also received an upgrade offer. Nevertheless, these differences are small and do not indicate that engagement among people who received an ECN containing certain types of offers compared to other types of offers behave in markedly different ways.
- 5.22 We also examined whether customers were more likely to take a specific type of engagement action – re-contracting or switching - according to the type of offer included in their ECN. Again, we did not find a systematic pattern. For some providers, the inclusion of an upgrade offer correlated to higher re-contracting activity - BT and Plusnet both saw this in September 2020. But for other providers, we did not observe this pattern. Overall, and looking across all months for which we have data, we observe that including upgrade offers did not systematically drive either higher or lower engagement among customers for any provider, compared to including only similar offers. We also explored whether the fact that Virgin Media does not offer its existing customers the same prices as it does to new customers resulted in different engagement levels. The data we have did not allow us to determine whether this is the case.
- 5.23 We will continue to monitor how providers send ECNs and ABTNs in order to understand whether differences in approach have an impact on customer engagement.

## **Our research amongst both broadband and mobile customers indicates that customers find ECNs helpful**

- 5.24 In addition to the analysis set out above, we also conducted research on a sample of both broadband and mobile customers who had either received an ECN for a contract ending in September 2020 ('ECN customers') or were a new customer during that month ('new customers'). This research was designed to gauge awareness of receiving an ECN among those who had been sent one and to obtain a consumer perspective on the usefulness of receiving an ECN. The research involved both broadband and mobile providers and

provides insight into how customers responded to being sent an ECN, which is not possible to gauge from the customer level data obtained from providers. Eight providers agreed to participate in the research (broadband: BT, TalkTalk and Virgin Media; mobile: EE, Vodafone, O2, Three and Virgin Mobile). A full description of the research methodology can be found in Annex 1. These eight providers provided Ofcom with anonymised details of all their ECN and new customers for the month of September 2020.<sup>100</sup> While we know that all ECN customers had been sent an ECN, it was not possible to tell whether new customers to a particular provider had been sent an ECN by their previous provider since we were reliant in the research on customer recall and reporting of their experiences.

- 5.25 The wording of the ECNs themselves, the number of customers sent an ECN, final response rates among each provider's customers and numbers of completed interviews varied between providers. Such variation makes it difficult to make robust comparisons in levels of effectiveness of ECNs by format and by provider. We are, however, able to look at the results at an overall level and believe that these are sufficiently robust to be indicative of the behaviour of consumers receiving ECNs.

### **ECN customers' awareness of ECNs is high and has prompted a significant proportion to take action that they may not otherwise have taken**

- 5.26 Our consumer research shows that across both fixed and mobile, around two thirds of 'ECN customers' who were sent an ECN recalled receiving one.<sup>101</sup>
- 5.27 These customers were more likely to know their contract status (95% vs. 71% of those who did not recall receiving an ECN) and to have taken action since receiving it (76% vs. 50%), including looking at alternative deals with their current provider and looking at deals with other providers. Those who had looked at deals from their current provider were more likely to have looked at alternative deals (61%) to the one detailed in the ECN (42%).
- 5.28 ECNs are intended to prompt customers to engage with the market as a whole, to consider offers both from their current provider and what might be available from other providers, and make an active choice on the best deal for them. The evidence from our customer research indicates that ECNs are already having an impact: many customers who received one engaged in the market by shopping around and considering deals from across the market, even if most customers ultimately chose to re-contract rather than to switch.
- 5.29 The vast majority (90%) of those who recalled receiving an ECN agreed that they had found it helpful that their provider had reminded them that their contract was due to end soon

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<sup>100</sup> The providers participated in the research on a voluntary basis and the level of detail provided about each ECN customer varied between providers and ranged from only the date the ECN was sent to full details of the previous price, the re-contracting price offered in the ECN, the price the customer would pay if they took no action, and their current contract's end date

<sup>101</sup> We will continue to monitor awareness of ECNs/ABTNs and any actions taken after receiving one via our annual Core Switching Tracker.

and 60% of those aware and had re-contracted with their provider agreed that the ECN had helped them get a better deal.

- 5.30 We described in chapter 4 how in some circumstances, mobile customers may be better off remaining out of contract. There are rational reasons for why customers may choose to remain out of contract. As noted in chapter 4, while 11% of customers on bundled mobile contracts were out of contract in 2020, around 30% of these would not make a saving by switching to an equivalent SIM-only deal. Even if they could save, mobile customers may also choose to remain out of contract for other reasons – for example, if they are waiting for a new handset to launch. And although generally speaking most broadband customers would save by being in contract, there may again be rational reasons to stay out of contract – for example, because they are about to move house and don't want to commit to a minimum contract period. Our consumer research shows that a third of those 'ECN customers' who did nothing after receiving the ECN said this was because they were happy to take the "do nothing" option detailed in the ECN. One in five customers said they had not acted because, even though they might save money on a different deal, they were happy enough with their current deal. A small proportion of customers (6%) said they had not acted because they had forgotten about or lost their ECN.
- 5.31 A fifth of ECN customers who recalled receiving an ECN claimed this had prompted them into taking action they would not have otherwise taken, and almost half claimed that although they may have acted without receiving one, the ECN itself was as a useful reminder.<sup>102</sup>
- 5.32 Taken together, the results of our consumer research show that there is a high level of awareness of ECNs and that they have helped many customers, some of whom would otherwise have done nothing, get a better deal.

### **New customers who recalled receiving an ECN were more likely than those who didn't to say that their current contract coming to an end was a prompt to switch**

- 5.33 Around a third of each of the new broadband and new mobile customers in our research claimed they had received an ECN from their previous provider, broadband customers most likely via email, mobile customers, slightly more likely by text than by email. Almost half said they had not received one and around a fifth were not sure whether they had received one.
- 5.34 Among new customers, whether or not they claimed to have received an ECN, the main reasons given for switching provider were price-related (finding out about a better deal or service from another provider (27%) or wanting to reduce the cost of services (25%)) and

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<sup>102</sup> There will be some people who are more engaged in the market in general and would have taken action even if they had not been prompted to do so by an ECN, as evidenced by switching behaviour and engagement levels recorded in our Core Switching Tracker survey prior to the introduction of ECNs.

technical/service issues (26%). This is in line with the findings from our 2020 switching experience tracker.<sup>103</sup> The fourth most-cited reason was the fact that their current contract was coming to an end (20%), with those who recalled receiving an ECN, significantly more likely than those who did not (30% vs. 14%), to say that their current contract coming to an end was a prompt to switch.

- 5.35 New mobile customers who were aware of receiving an ECN were significantly more likely than those unaware to be happy they were on the best deal (86% vs. 78%) whereas there was no difference between those aware and unaware among new broadband customers (69% vs. 67%).
- 5.36 The majority of new customers who recalled receiving an ECN agreed that they had found it helpful, (83% overall, 87% mobile, 76% broadband) and many agreed that it had helped them get a better deal (58% overall, 66% mobile, 49% broadband).

### **People who either re-contract or switch are happier that they are on the best deal for them than are those who are now out of contract**

- 5.37 Customers who had taken any engagement action – whether switching provider or re-contracting with their current provider - were more likely to be happy they were now on the best deal (75% and 76% respectively) than were those who had stayed with the same provider and were now out of contract (51%). In general, mobile customers in each of these groups were happier than broadband customers.

## **Summary**

- 5.38 The data that we have gathered from broadband providers on how they have chosen to implement ECNs indicates that customers are not significantly more or less likely to engage depending on how near their contract date the ECN is sent, whether it is sent via email or letter, or which types of offers are included.
- 5.39 Our consumer research suggests that receiving an ECN has prompted some consumers to take action they may not otherwise have taken. Many of those aware of receiving an ECN appreciated being told by their provider that their contract was coming to an end and felt that it had helped them get a better deal.
- 5.40 Overall, we have found that ECNs are having a positive impact on customer engagement.
- 5.41 The introduction of ECNs coincided with the start of the Covid-19 pandemic. We recognise that the combination of unusual circumstances caused by the pandemic may mean that

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<sup>103</sup> Our [2020 Switching Experience Tracker](#) shows that the main reasons prompting consumers who eventually switched provider to consider switching are: finding out about a better deal from another provider (30%), wanting to reduce the cost of services (27%), and their contract coming to an end (22%). Technical issues were mentioned by 15%.

the extent to which ECNs impacted on engagement activity in 2020 could prove to be atypical compared to future years.

- 5.42 We will continue to monitor customer engagement indicators in future and may further review the impact of ECNs and ABTNs as they become more widely established. We will also continue to monitor providers' approaches on ECNs and ABTNs and their compliance with the rules.
- 5.43 In addition, we are planning to conduct an ex-post evaluation of broadband ECNs using econometric techniques to provide further insight into their effectiveness. This is due to be published in 2022 and will build on the findings set out in this report.

# A1. Consumer research among ECN and New customers

This annex provides details of the consumer research Ofcom conducted among customers of eight communications providers (CPs).

## Sample

- A1.1 Three broadband and five mobile providers agreed to participate in the research: BT, TalkTalk and Virgin Media for broadband; and EE, O2, Three, Virgin Mobile and Vodafone for mobile. These CPs provided anonymised customer details for all customers whose contract was due to end in September 2020 and had been sent an ECN (referred to as 'ECN customers' hereafter and in the main body of this report), and for all new customers who had signed up during September 2020 ('new customers').
- A1.2 Ofcom specified the consumer data required from CPs in the form of a set of headers in an Excel spreadsheet. Varying degrees of customer details were provided by each CP – ranging from just the start date of the contract to details of type of package, price paid, speed of broadband, amount of mobile data etc. We used the data provided by each CP to design a sample structure for each one to attempt to ensure that the final achieved sample would be representative of each CP's customers. Sample was then selected on this basis.
- A1.3 We aimed to achieve 750 completed interviews with ECN customers and 350 completed interviews with new customers per CP. Following advice from the participating CPs about response rates they typically achieve when conducting their own customer research, we estimated we would achieve around a 2% response rate and therefore selected fifty times as many sample as required responses.

## Methodology

- A1.4 Selected sample for each CP was sent to our research partner, Yonder, who allocated a unique survey link to each piece of sample. The survey sample, including the unique survey links, was sent to CPs, who then matched this data to the email addresses or mobile phone numbers of the selected sample. The CPs then sent out survey invitations (either by text or email) to the selected sample, containing their unique survey link. Respondents then clicked on their link and completed the interview online.
- A1.5 The survey was hosted by Yonder and the CPs did not have access to the raw survey data and, although aware of which customers had been invited to participate, were not aware which of their customers went on to complete the survey.
- A1.6 We achieved varying response rates across the CPs, with our original estimated 2% response rate achieved among customers of only one CP. We issued top-up sample for

those CPs with lower response rates and in some cases issued all the sample we had been provided with but did not achieve our target number of interviews.

- A1.7 Fieldwork took place between November 2020 and January 2021. As the sending of survey invitations was administered by the CPs' marketing departments, Ofcom did not have control over when the invitations were sent, as this needed to be fitted in around CPs' own communications programme.
- A1.8 The survey invitation included a link to a page on the Ofcom website that provided respondents with information about the survey and reassurance that it was genuine and that their response would remain anonymous.
- A1.9 At the end of the interview, respondents were asked for their consent for Ofcom to match their anonymised survey data with other anonymised data that their CP had provided to Ofcom, in order to allow us to link respondents' claimed behaviour from the survey data (re-contracting, staying out of contract etc.) with their actual behaviour recorded by their CP.
- A1.10 Analysis of the data was conducted by Yonder, who provided Ofcom with aggregated data tables.
- A1.11 The questionnaire for the survey can be found in the [ECN Consumer Research 2020 Questionnaire](#), and the aggregated data tables can be found in the [ECN Consumer Research 2020 Data Tables](#).