
Helping consumers get better deals

Review of pricing practices in fixed broadband

[Helping consumers get better deals: review of pricing practices in fixed broadband](#) – Welsh overview

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1. Overview

We are increasingly reliant on decent broadband to live and work. The Covid-19 crisis has underlined just how dependent we are on home broadband services. Given the importance of broadband and other communications services, it is vital that people are treated fairly by their providers, get a fair deal, and can trust that communications markets operate with integrity.

There is significant choice for broadband customers in the UK, allowing people to pick from a wide range of providers and packages to suit their needs. But we are concerned that not all broadband customers are benefitting from the good deals that are available. Some customers pay high out-of-contract prices when they could save money by signing a new contract with their provider or by switching to a new company. This document sets out further progress we have made to address this problem since we published our initial conclusions report in September 2019 (our “initial report”).¹

What we have found

We collected data on over 20 million customers and updated our analysis of the prices broadband customers pay. This will serve as a baseline for future monitoring of the broadband sector, against which we will monitor changes over time.

Out-of-contract broadband customers continue to pay higher prices for their service. As in many competitive markets, broadband customers often pay different prices for an equivalent service. Customers who shop around can take advantage of discounts and re-contracting customers can also find good deals. However, we share the concerns raised by Citizens Advice, the CMA and others that not all customers are benefitting from the good broadband deals available. This is often described as the ‘loyalty penalty’.

Our latest data shows that around 40% of broadband customers are out-of-contract. These customers pay around £4.70 more per month than their provider’s average price for their service.

Vulnerable customers² pay a lower price differential than the average for all out-of-contract customers (£3.90 compared to £4.70), however, they tend to stay out-of-contract for longer (44% have been out-of-contract for at least two years compared to 37% for all customers). In addition, difficulties engaging can be more pronounced.

We estimate the impact of price differentials on out-of-contract customers is just under £500m per year, for vulnerable out-of-contract customers it is just under £80m per year, on the basis by which providers currently measure vulnerability. These findings are based on the further work we have done to estimate the impact of price differentials on out-of-contract customers. To do this, we estimated how much out-of-contract customers pay compared to the average price for their service from the same provider. We use the average price as the benchmark because it more closely

¹ Ofcom, 25 September 2019, [Helping consumers get better deals: A review of pricing practices in fixed broadband](#).

² Taking into account all indicators of vulnerability (based on provider recording).

approximates the price that out-of-contract customers might pay if we saw significant numbers of these customers moving to cheaper deals.

Actions that protect customers from high out-of-contract prices

We have already introduced new rules to ensure broadband customers are told when their contract is coming to an end and are shown the best deals available. Out-of-contract customers will also be given reminders and shown their providers' best deals every year. We believe this intervention, which came into force in February 2020, will help many customers get better deals. We will monitor their impact closely.

We have secured commitments from all major providers to conduct price reviews for their vulnerable customers, including providing discounts that don't require customers to engage. We estimate that these commitments, along with other pricing changes, could ultimately benefit around one million potentially vulnerable out-of-contract customers, by an average of around £70 each. This could ultimately amount to **support of over £70m per year for these customers.**

We welcome revisions made by providers to their pricing policies, which could ultimately benefit out-of-contract customers by over £270m per year. These changes include reducing the difference between out-of-contract and new customer prices and free upgrades.

Next steps

We also welcome the actions providers have taken to protect their vulnerable customers from high out-of-contract prices. However, we believe that there is room for providers to do more to protect these customers:

- Improved identification: While recording of customers identified as vulnerable has increased recently, providers still need to do more in this area to ensure that vulnerable customers get support when they need it. Our 'Treating vulnerable consumers fairly' guide includes practical advice on how providers can do this.³
- Discounts for vulnerable customers: Where providers' commitments do not meet our principles of effective support – either because the automatic price reductions do not go below the best available out-of-contract prices, or because the same level of support is not provided regularly in future to protect newly vulnerable customers – we encourage them to consider further improvements.
- Continuing to innovate to support vulnerable customers who have not engaged for some time: this should include consideration of the needs of older customers.
- Providing additional help for those who are struggling to pay their bills: Given current circumstances, we have called on providers to be proactive in engaging with customers who are struggling to pay and to offer customers early financial support that is in their best interests. This includes offering customers a cheaper tariff, for example, where they are in debt and on a high out-of-contract tariff.

³ Ofcom, 23 July 2020, [Treating vulnerable consumers fairly: A guide for phone, broadband and pay-TV providers](#)

We will continue to shine a light on broadband pricing practices and expect providers to ensure their customers are being treated fairly. We are stepping up our monitoring activity to regularly shine a light on whether customers are getting a fair deal. If our monitoring shows that the situation is not improving, we will take further action and, if necessary, are open to exploring with government additional powers to implement targeted pricing interventions to protect those in vulnerable circumstances.

We also continue to monitor the affordability of broadband (and other communications) services to understand where households may be struggling to pay for these services. In recognition of the likely impact of Covid-19 on the affordability of broadband and other services, we have strengthened our work in this area and will publish new research later this year on affordability. We will consider whether further measures are necessary to protect those who are struggling to pay for their communications services. This is in addition to our recent response to the pandemic, working with government and providers to secure temporary measures, to protect those who are struggling to pay their bills.

What we have found

- 1.1 As in many competitive markets, broadband customers often pay different prices for an equivalent or similar service. Customers who shop around can take advantage of discounts offered to encourage switching or to support the take-up of new services. Good deals are also often available when customers re-contract with their existing provider.
- 1.2 However, customers who do not sign a new contract with their broadband provider or switch to a new provider after the end of their minimum contract period can pay considerably more for the same service than those who do. This is often described as the 'loyalty penalty'. We share the concerns raised by Citizens Advice, the CMA and others that not all customers are benefitting from the good broadband deals available.
- 1.3 The latest data shows that around 40% or 8.7 million broadband customers are out-of-contract. These customers pay around £4.70 more per month than the provider average price for their service. The proportion of vulnerable customers who are out-of-contract is only slightly more than the proportion of all customers who are out-of-contract (42% compared to 40%).
- 1.4 We found that out-of-contract vulnerable customers pay a lower price differential on average than out-of-contract customers as a whole (£3.90 compared to £4.70). However, they tend to stay out-of-contract for longer, with 44% having been out-of-contract for at least two years, compared to 37% for all customers. In addition, our qualitative research suggested that difficulties engaging can be more pronounced.
- 1.5 We have done further work to understand the impact of price differentials on out-of-contract customers and have estimated how much out-of-contract customers pay compared to the average price for their service from the same provider. We use the average price as the benchmark because it more closely approximates the price that out-of-contract customers might pay if we were to see significant numbers of these customers

moving to cheaper deals. Using this measure, we estimate that the impact of price differentials on out-of-contract customers is just under £500m per year, including just under £80m per year for vulnerable out-of-contract customers.

Actions that protect customers from high out-of-contract prices

We will monitor the impact of our new notification rules

- 1.6 We expect end-of-contract and annual best tariff notifications to increase customers' understanding of the prices they pay and the potential benefits of switching or re-contracting, so that they can get the best deal to meet their needs. It is important for us to understand the impact of these notifications. We are conducting comprehensive monitoring and evaluation of the notifications and will look to report on initial findings in 2021.

Providers have taken steps to help vulnerable customers get better deals

- 1.7 Our research shows that customers in vulnerable circumstances⁴ can face additional challenges that make interacting with their provider more difficult. These challenges can hinder their ability to get a better deal. We have secured commitments from the UK's largest broadband providers, covering nearly 90% of the market, to protect vulnerable customers.
- 1.8 These providers are introducing protections for customers who they know are vulnerable, moving those who are paying higher out-of-contract prices onto better prices through annual reviews. These protections are summarised below:
- BT has given a price reduction to its vulnerable customers who are 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 will also conduct further annual reviews with vulnerable customers to discuss whether they are on the best deal for their needs.
 - EE will give a one-off price reduction to its vulnerable customers who are out-of-contract and paying a price higher than that available to new customers. It will reduce the price for these customers to match the best price available to new customers. EE will also conduct further annual reviews with vulnerable customers to discuss whether they are on the best deal for their needs.
 - Plusnet will proactively engage 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 will immediately reduce their price to the equivalent new customer price.
 - Sky will conduct an annual price review for vulnerable customers who are out-of-contract to establish whether they are on the best tariff available to them, given their

⁴ Throughout this document, we use the terms 'vulnerable customers' and 'customers in vulnerable circumstances' interchangeably.

contract status. If they are not, Sky will automatically move them onto the best out-of-contract price available to them for their product.

- TalkTalk has conducted its first annual price reviews for all out-of-contract vulnerable customers and offered them access to the best new customer prices. It will automatically move customers onto these best prices where they do not respond.
- Virgin Media will conduct annual price reviews for vulnerable customers to help them get onto the best deal for their needs. If customers do not respond, Virgin Media will reduce 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.

1.9 We estimate that, over time, the pricing commitments for vulnerable customers as well as the general pricing changes and free service upgrades (set out below) could ultimately benefit out-of-contract vulnerable customers by over £70m per year, working out at an annual saving of around £70 for each customer.

Some providers have made pricing changes that will further help customers get better deals

1.10 In addition to these commitments, since we opened our broadband pricing review in December 2018 some providers have made changes to their pricing strategies. We welcome these changes, which will further help customers get better deals:

- BT, EE, Sky and TalkTalk have reduced the average differential between new and out-of-contract prices;⁵
- BT and Virgin Media are undertaking free speed upgrades, while BT and Plusnet have removed data caps from all of their broadband products; and
- BT, EE, Plusnet, Sky and TalkTalk are giving existing customers access to new customer prices.

1.11 We estimate that, over time, the protections for vulnerable customers as well as changes in pricing strategies and free service upgrades could ultimately benefit out-of-contract customers by over £270m per year. This would address more than half of the impact of price differentials for out-of-contract customers as a whole.

Next steps

Providers need to do more to protect their vulnerable customers who are out-of-contract

1.12 We welcome the changes that providers have made to support customers since we began our review of broadband pricing. Nonetheless, there is room for providers to do more.

⁵ Some of these changes apply for new and re-contracting customers, while others also apply for existing customers coming out-of-contract. More detail on these changes is provided in section 4.

- 1.13 We expect providers to better demonstrate how they are improving outcomes for vulnerable customers. This includes making greater efforts to identify and record vulnerability, drawing on the recommendations in our recently published guide to treating vulnerable customers fairly.⁶
- 1.14 While recording of customers identified as vulnerable has increased recently, analysis of data collected using Ofcom’s research shows that the proportion of customers recorded by providers as vulnerable continues to be significantly lower than we might expect.
- 1.15 Further, where providers’ commitments do not meet our principles of effective support⁷ – either because the automatic price reductions do not go below the best available out-of-contract prices, or because the same level of support is not provided regularly in future to protect newly vulnerable customers – we encourage them to consider further improvements.
- 1.16 We also encourage providers to continue to consider how best to support vulnerable customers who have been out-of-contract for some time, including older customers where they aren’t covered by existing measures.
- 1.17 Finally, we welcome the swift action and support taken by providers in committing to work with customers who find it difficult to pay their bills as a result of Covid-19 to ensure that they are treated fairly and are appropriately supported. We have asked providers to continue to be proactive in engaging with customers who are struggling to pay their bills and to offer customers support that is in their best interests.

We will continue to shine a light on broadband pricing

- 1.18 In order to build on recent progress, we call on the main providers to ensure the fair treatment of their customers, in particular by helping out-of-contract customers get better deals and following through on the pricing policies and changes described above.
- 1.19 We expect to see a significant reduction in the proportion who are out-of-contract both through the implementation of end-of-contract and annual best tariff notifications, as well as the pro-active engagement the providers have committed to with their vulnerable customers, as outlined above.
- 1.20 Figure 1 gives a snapshot of outcomes for broadband customers, by provider, based on provider data from September 2019. Figure 2 shows the proportion of broadband account holders who report being unsure of their contract status. Figure 3 focuses on outcomes for vulnerable customers. We will continue to report on these metrics as part of our future monitoring.

⁶ Ofcom, 23 July 2020, [Treating vulnerable consumers fairly: A guide for phone, broadband and pay-TV providers](#)

⁷ We set out in section 4 our view that effective support for vulnerable customers should be provided: automatically where customers do not engage, regularly (at least on an annual basis), and with a reduction in prices below the level being paid by out-of-contract customers.

Figure 1: Monitoring headline customer outcomes

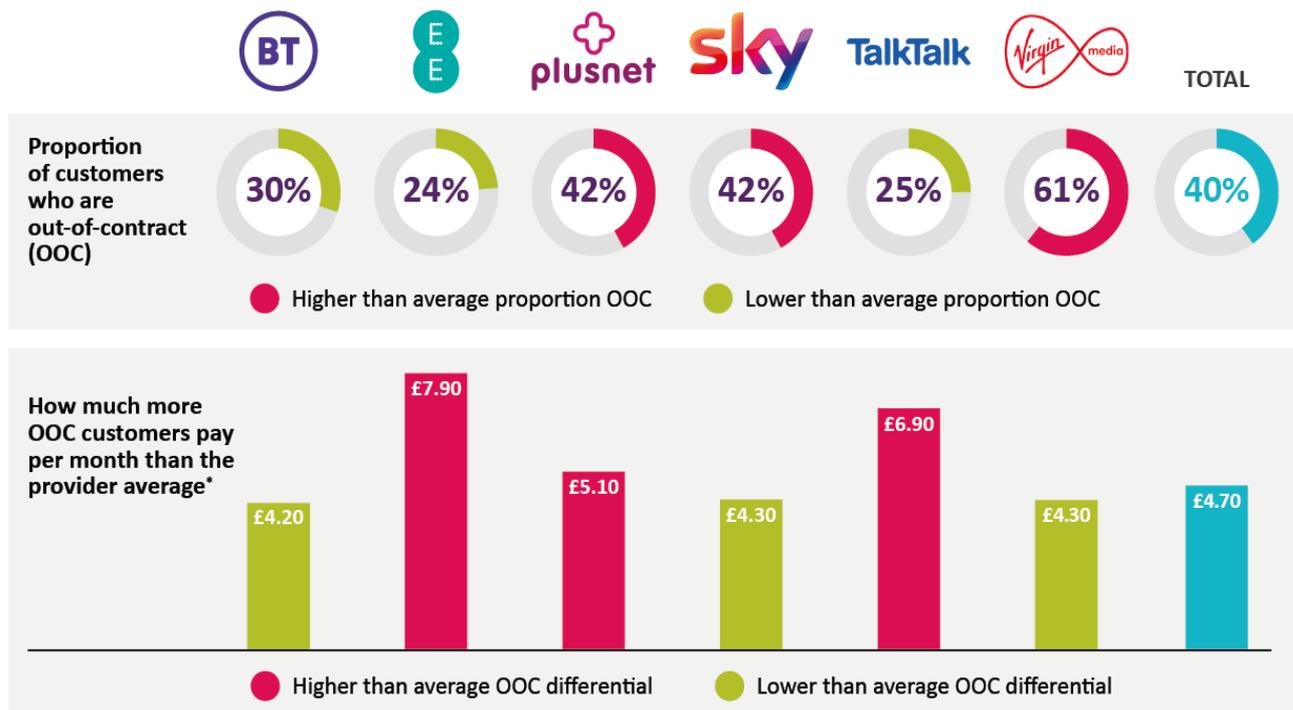
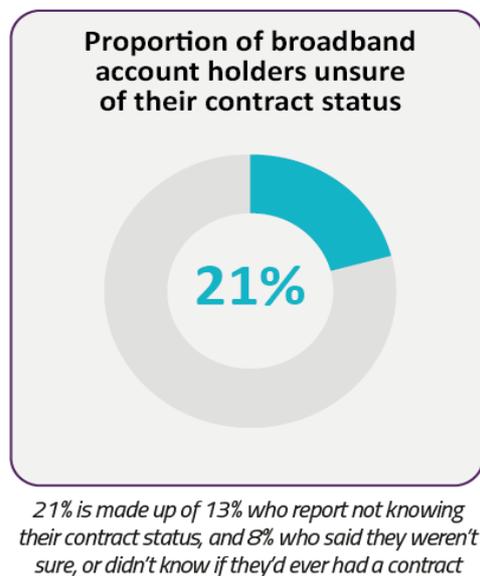
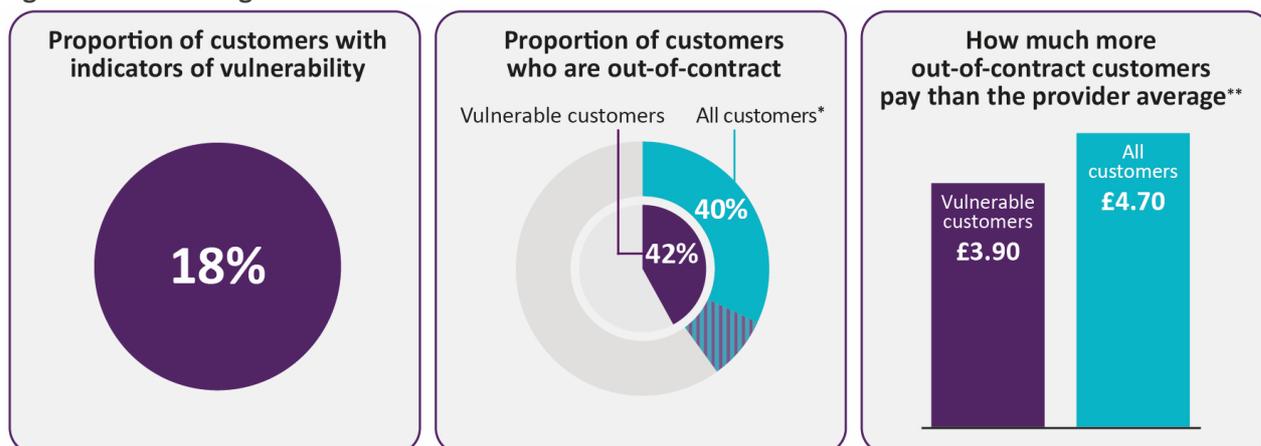


Figure 2: Monitoring customer awareness of contract status⁸



⁸ Source: [Ofcom Core Switching Tracker 2019: 17 July to 21 August](#), Q6K

Figure 3: Monitoring vulnerable customer outcomes⁹



**The cross-hatched area shows the proportion (19%) of all out-of-contract customers with a vulnerability indicator. This is similar to the proportion (18%) of all customers, both in- and out-of-contract, with a vulnerability indicator*

***To calculate this, individual OOC customers' prices are compared to the average price of a similar product of that provider.*

We are working with industry and increasing our focus on the protection of those who struggle to afford their communications services

- 1.21 In response to the current Covid-19 pandemic, we worked with government and providers to secure temporary measures to protect vulnerable customers, including those who are struggling to pay their broadband bills. We welcome the swift action that providers have taken to protect customers who are struggling to pay due to Covid-19. As stated in our Plan of Work for this year¹⁰, we also continue to monitor the affordability of broadband (and other communications) services to understand where households have difficulty paying for these services. Later this year we will publish new research on affordability and will consider whether further measures are necessary to protect those who struggle to afford their communications service.

⁹ Note that the data presented in Figure 2 relies on provider recording of vulnerability, taking into account all indicators providers hold. However, as outlined in section 3, providers are only recording details for a subset of their vulnerable customers. We are therefore unable to establish the extent this 'sample' is representative (in terms of outcomes) of the wider group of vulnerable customers that our market research suggests exists. As such, analysis of the provider data should be seen as indicative only.

¹⁰ Ofcom, 30 April 2020, [Ofcom's Plan of Work 2020/21](#)

2. Introduction and background

Review of broadband pricing

This review is part of our programme of work to ensure fairness for customers

2.1 The broadband pricing review and the measures we have already introduced to help customers get better deals are part of our ongoing work to ensure fairness for customers. This remains a priority for us, as highlighted in our plan of work for 2020/21¹¹ and annual plan for 2019/20.¹² To bring this about, we have been working with communications providers to ensure that they treat their customers fairly, introducing targeted interventions where necessary (some of which are highlighted in the box below).

We expect customers to benefit from our work to ensure fairness for customers

- **Clearer information for broadband purchasers:** In March 2019, we introduced new protections for broadband shoppers – meaning they have to be given information on minimum and peak-time speeds, before they sign up to a deal. If a customer’s broadband speed drops below the minimum guaranteed level, companies will have one month to improve performance, before they must let the customer walk away – penalty-free.¹³
- **Automatic compensation when things go wrong:** We launched a compensation scheme in April 2019, ensuring broadband and landline customers automatically get money back from their providers for missed appointments and delayed installations or repairs.¹⁴
- **The launch of our fairness for customers commitments:** The launch of a set of fairness for customers commitments in June 2019, to which all of the UK’s biggest telecoms providers have signed up. These are designed to embed a culture of fairness within the industry. We intend to publish a report to monitor the progress of providers against the commitments in early 2021.¹⁵
- **Better deals for bundled mobile contracts:** Providers have introduced measures to help their mobile customers, including some price cuts for out-of-contract customers. These took effect in February 2020.¹⁶

2.2 As noted above, fairness for customers continues to be a priority and we are working on additional reforms to help customers, including:

¹¹ Ofcom, 30 April 2020, [Ofcom’s Plan of Work 2020/21](#)

¹² Ofcom, 25 March 2019, [Ofcom’s Annual Plan: Our programme of work for 2019/20](#)

¹³ Ofcom, 28 February 2019, [Clear, honest information before you buy broadband](#)

¹⁴ Ofcom, 1 April 2019, [Automatic compensation: What you need to know](#)

¹⁵ Ofcom, 3 June 2019, [Britain’s biggest broadband and phone firms to put fairness first](#)

¹⁶ Ofcom, 22 July 2019, [Statement and consultation: Helping consumers to get better deals in communications markets – mobile handsets](#)

- **Making switching easier:** In December 2019, we published a consultation on new general rules to make switching easier and more reliable, including where customers are moving between providers using different physical networks (e.g. Openreach to Cityfibre or Virgin Media) or between providers of full-fibre services on the same network. We plan to publish a statement later this year along with a consultation on a specific process for residential customers switching fixed voice and broadband services.¹⁷
- **Providing clear information for customers on the price they pay both during the minimum contract period and after that period:** Our December 2019 consultation also set out our proposals for new rules to provide key contract information to customers before they sign-up to a communications service. An important piece of information to be provided is the core subscription price and our proposed guidance makes it clear that customers should be given information on the price they will pay both during the minimum contract period and after that period.¹⁸
- **Making it easier to engage with communications services:** Through our Open Communications initiative we are developing proposals that would enable people and small businesses to share data about their communications services (such as their current tariff or data usage) with third parties to help them navigate the market and get a better deal.¹⁹

We have focused on helping broadband customers, particularly vulnerable customers, get better deals

- 2.3 We want broadband customers to be able to shop around with confidence, make informed choices and get the right deal for their needs. The introduction of new rules requiring broadband customers to be told when their contract is coming to an end and shown the best deals available (end-of-contract and annual best tariff notifications (ECNs and ABTNs)) is an important step in helping customers get better deals.
- 2.4 However, we recognise that, for some customers, better information may not be sufficient to help them avoid high out-of-contract prices. This could be the case for people whose circumstances make them vulnerable, or who lack confidence in navigating the market or negotiating with their provider.
- 2.5 In December 2018, we published terms of reference for our review.²⁰ This set out our concern that some customers may be particularly disadvantaged by high out-of-contract prices where they find it harder to engage. Our review has sought to understand the extent to which this is the case. We have examined:

¹⁷ Ofcom, 17 December 2019, [Ofcom proposes new rules to make broadband switching easier](#)

¹⁸ Ofcom, 17 December 2019, [Fair treatment and easier switching for broadband and mobile customers: Proposals to implement the new European Electronic Communications Code](#), pp.30-32

¹⁹ Ofcom, 30 April 2020, [Ofcom's Plan of Work 2020/21](#), p.31

²⁰ Ofcom, 14 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](#), section 13

- Which customers are negatively impacted by price differentials and in particular whether they are more likely to be vulnerable customers;
 - The impact of the practice of price differentiation by contract status; and
 - Whether any additional targeted action, beyond ECNs and ABTNs, might be needed, to protect customers, particularly where they are vulnerable.
- 2.6 In carrying out our duties, we are required to have particular regard to those in vulnerable circumstances, as well as those with disabilities, the elderly and those on low incomes.²¹ This is reflected in our fairness for customers commitments, which all of the UK’s major providers signed up to in June 2019, and which challenge providers to set new standards for how they treat their customers – especially those who might be vulnerable.²² It is also reflected in our Fairness Framework, which makes clear that we are likely to be most concerned about conduct by companies which adversely affects vulnerable customers.²³ Further detail on our Fairness Framework and its application to broadband pricing is included in Annex A1.
- 2.7 We also had a specific concern about customers who have less choice, for example because they live in an area where superfast broadband or full-fibre broadband is not yet available. Our review has therefore also examined the extent to which consumers who live in areas where superfast broadband is not yet available, or for whom there is more limited retail choice, are disproportionately affected by price differentials.
- 2.8 The targeted actions set out in this document have taken account of Citizens Advice’s super-complaint about the loyalty penalty and the CMA’s response to the super-complaint, including the recommendations to help customers get a fairer deal.

In our initial report we found that some people pay high out-of-contract prices when they could save money by switching or re-contracting

- 2.9 Overall, retail competition in broadband is delivering good value for most customers, with people getting more for their money every year.²⁴²⁵ Continuing to support competition will be important to ensure investment in gigabit-capable networks, which will provide faster and more reliable broadband to many more customers in the future.

²¹ While not an exhaustive list of the ways in which a customer may be vulnerable, Condition C5 in Ofcom’s General Conditions lists characteristics which we expect providers to take into account when giving consideration to vulnerable customers. These are “age, physical or learning disability, physical or mental illness, low literacy, communications difficulties or changes in circumstances, such as bereavement”. See [General Conditions of Entitlement: Unofficial Consolidated Version](#)

²² Ofcom, 3 June 2019, [Britain’s biggest broadband and phone firms to put fairness first](#)

²³ Ofcom, 23 January 2020, [Making communications markets work well for customers – a framework for assessing fairness in broadband, mobile, home phone and pay TV](#), paragraph 3.27

²⁴ To illustrate, average residential fixed broadband download speeds increased from 18 Mbit/s to 64 Mbit/s between 2013 and 2019 and we estimate that the average spend per GB of data consumed fell by around 90% in real terms (i.e. adjusted for inflation) over a similar period. Based on Ofcom, 13 May 2020, [UK Home Broadband Performance: Interactive Report](#) and Ofcom estimates based on operator data. Average spend on fixed line broadband and voice changed little in real terms, £37 in 2013 to £41 in 2018. See Ofcom, 4 July 2019, [Communications Market Report 2019](#).

²⁵ Note that the analysis in this report excludes the Hull area which has been examined in our consultation [Promoting competition in fibre networks – Hull Area Wholesale Fixed Telecoms Market Review 2021-26](#)

- 2.10 However, the benefits of increased value for money are not evenly distributed across customers. Our initial report showed that providers were charging their customers different prices for equivalent broadband services based on their contract status. We found that:
- New customers generally pay the lowest prices (the “NC price”).
 - Re-contracting customers pay more on average than new customers, although many customers who re-contract were on deals that were similar to those for new customers (the “RC price”).
 - Out-of-contract customers tended to pay the highest prices (the “OOC price”).
- 2.11 We also found that around one-fifth of customers were in their first contract with their provider; two-fifths had re-contracted. Around two-fifths of customers were out-of-contract.
- 2.12 We investigated whether a higher than average proportion of vulnerable customers were out-of-contract (i.e. paying high prices for their broadband services). Our results showed that the proportion of vulnerable customers who were out-of-contract was similar to the proportion of all customers (around two-fifths).
- 2.13 Nevertheless, there were some differences in contract status: vulnerable customers, as a whole, were more likely to have re-contracted and less likely to be new customers, suggesting that difficulties navigating the market may be higher for some vulnerable customers. We also found that vulnerable customers were more likely than average to have been out-of-contract for two or more years, suggesting that some vulnerable customers may find it harder to engage.
- 2.14 Our finding that customers pay different prices for their services is not necessarily concerning and often occurs in competitive markets. Customers who shop around can take advantage of discounts offered to encourage switching²⁶ or to support the take-up of new services. In the broadband market, a significant proportion of low-income customers benefit from discounted prices. In our initial report, we found that 27% of those living in the 10% most deprived areas of the UK were new customers, compared to 21% across all customers, suggesting that some financially vulnerable customers were taking advantage of the lower prices available to customers who engage.²⁷
- 2.15 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 current and future demand for gigabit-capable broadband services. We, in common with the Government, have a strategic aim to ensure

²⁶ 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.

²⁷ Ofcom, 25 September 2019, [*Helping consumers get better deals: A review of pricing practices in fixed broadband*](#), paragraph 4.34

everyone in the UK can access fast and reliable broadband services and see competition as important in delivering the new investment that this requires.²⁸

- 2.16 As well as encouraging switching between providers, discounting can be a useful tool to encourage take-up of new services.²⁹ While we would expect to see providers continue to discount new services, and therefore 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, particularly where they are in vulnerable circumstances.
- 2.17 Difficulties engaging might arise, for example, because of contextual factors like stress or challenges associated with low-income or poor health that reduce decision-making capacity, or due to behavioural biases. Behavioural biases affect the way customers make decisions and can limit their ability to choose a deal that is right for their needs, or to engage at all. Everyone has behavioural biases, and most are unaware of their own biases when making decisions.
- 2.18 Our qualitative research, set out in our initial report, found that people tend to over-value what they have currently and under-value the benefits of an alternative (known as status quo bias). This can lead to consumers avoiding or delaying decisions (for example, to re-contract or switch provider) due to a reluctance to change what they have. There was also evidence that people avoid engaging through fear of making the ‘wrong’ decisions and ending up worse off than they are now (known as regret/loss aversion).³⁰
- 2.19 We also found that difficulties engaging and behavioural biases can be more pronounced among some vulnerable customers. Such customers are more likely to lack confidence in engaging with the broadband market. A lack of confidence can cause people to put off looking for a better deal or to take a deal which is not suited to their needs. We found that older customers (particularly those aged 75+)³¹ are more likely than other age groups to lack confidence engaging (in particular in relation to understanding broadband terminology). This was also the case for those in DE socio-economic groups, those with a physical disability, and those with mental health problems.³²
- 2.20 Our qualitative research also suggests that the severity of vulnerable characteristics; whether combined with other vulnerabilities; and/or a support network affects the impact

²⁸ See Ofcom, 30 April 2020, [Ofcom’s Plan of Work 2020/21](#), paragraph 3.2; Ofcom, 8 January 2020, [Promoting competition and investment in fibre networks: Wholesale Fixed Telecoms Market Review 2021-26](#), paragraph 2.11, and Prime Minister’s Office, 14 October 2019, [The Queen’s speech and associated background briefing](#), page 82

²⁹ 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](#)

³⁰ See Ofcom, 25 September 2019, [Helping consumers get better deals: A review of pricing practices in fixed broadband](#), paragraphs 3.27 – 3.28

³¹ Our consumer research shows that overall 10% of customers report low confidence comparing costs, rising to 17% for 65-74 and 23% for 75+. 13% of customers report low confidence understanding broadband language terminology, compared to 21% for 65-74 and 28% for 75+. Source: Kantar research omnibus, March 2019.

³² See Ofcom, 25 September 2019, [Helping consumers get better deals: A review of pricing practices in fixed broadband](#), paragraphs 4.43 – 4.48

it can have on their ability and propensity to engage. Participants most likely to face challenges engaging were those with mental health problems, and those with a learning difficulty combined with low literacy, numeracy or confidence.³³ Our initial report set out some interventions for further consideration and positive steps by providers to help their out-of-contract vulnerable customers.

- 2.21 In addition to our new notification rules, our initial report included the commitments we had secured at that time from providers to help their out-of-contract vulnerable customers get better deals. Further details and updates are included in Section 4 of this report.
- 2.22 In our initial report, we also said that we were exploring the case for a targeted, special tariff to protect broadband customers on low incomes and that we were considering pursuing a collective switch trial. Further detail on our affordability work and social tariffs is included in Section 5. On collective switch, we said in our Plan of Work for 2020/21 that in monitoring the impact of end-of-contract and annual best tariff notifications, we would review how providers have implemented these notifications, their impact on customer behaviour and, in that context, whether consideration of other remedies, such as collective switch, may be appropriate.³⁴

Further work since our initial report

- 2.23 Since publishing our initial report in September 2019, we have:
- **Updated our analysis of the prices paid by broadband customers:** In this report, we use data from the UK's largest providers for September 2019 to update our understanding of the prices that people, including vulnerable customers, are paying for their broadband services. This will serve as a baseline for our monitoring of customer outcomes.
 - **Refined our approach to measuring the impact of price differentials on broadband customers including those who are vulnerable:** Our initial report estimated a total out-of-contract to new contract price differential of up to £1.1bn per annum.³⁵ However, we noted that the new customer price is not the most reliable benchmark for estimating the impact of price differentials on out-of-contract customers. In line with our terms of reference, we have done further work to establish a more reliable benchmark and estimate that the impact of price differentials on out-of-contract customers is just under £500m, including just under £80m for vulnerable customers.
 - **Worked with industry to secure fairer deals for customers:** Our initial report set out voluntary commitments from BT, TalkTalk and Virgin Media to help their out-of-contract vulnerable customers by moving them onto better deals. The CMA welcomed these commitments in its super-complaint update in January but said that the varying nature of the commitments might confuse customers.³⁶ We have now secured

³³ See Jigsaw, September 2019, [Consumer engagement in fixed broadband](#), pp. 17-18

³⁴ Ofcom, 30 April 2020, [Ofcom's Plan of Work 2020/21: Making communications work for everyone](#), page 30

³⁵ Ofcom, 25 September 2019, [Helping consumers get better deals: A review of pricing practices in fixed broadband](#), paragraph 3.36

³⁶ CMA, January 2020, [Loyalty Penalty Update](#), paragraph 16

commitments from EE, Plusnet and Sky to protect vulnerable customers, in addition to BT, TalkTalk and Virgin Media, and there is a greater degree of consistency in what providers have committed to do.

- **Done further analysis to understand how the commitments and pricing changes being made by providers will benefit out-of-contract customers:** A key ask from Citizens Advice³⁷ was for Ofcom to provide further evidence on the likely impact of the commitments and changes being made by providers. In this report, we present our estimate of the benefits to out-of-contract customers.
- **Developed proposals to shine a light on providers' broadband practices by monitoring and reporting on key broadband pricing metrics:** Which?³⁸ and the CMA³⁹ said that it will be important to monitor provider practices following our review to determine whether the commitments and other changes are leading to better outcomes for customers. The CMA also encouraged us to present our data in a way that provides a reputational incentive for firms to improve their treatment of existing customers.⁴⁰ In this report, we set out more detail on our monitoring plans, including the key metrics we will be measuring and reporting on.
- **Increased our focus on the affordability of broadband services:** In recognition of the likely impact of Covid-19 on the affordability of broadband we will be undertaking further work in this area which we set out in this report.

Structure of this report

2.24 The rest of this document is set out as follows:

- Section 3 updates our analysis of the prices paid by customers according to their contract status, including the prices paid by vulnerable customers and our estimate of the impact of price differentials;
- Section 4 sets out how we propose to help customers get better deals and the likely benefits from the protections that will be in place for out-of-contract customers; and
- Section 5 sets out next steps, including how we will report on and monitor providers' pricing practices and gives more detail on our work on affordability.

2.25 The document also includes the following annexes:

- A1. Application of the Fairness Framework;
- A2. Data analysis since the initial report and valuing the provider commitments and pricing changes: and
- A3. Glossary.

³⁷ Citizens Advice, 20 November 2019, [Trialling consumer remedies](#), page 2

³⁸ Which?, 25 September 2019, [Broadband providers to offer fairer prices to longstanding customers](#)

³⁹ CMA, January 2020, [Loyalty Penalty Update](#), paragraph 16

⁴⁰ CMA, January 2020, [Loyalty Penalty Update](#), paragraph 34

3. Price differentials and the impact on out-of-contract customers

- 3.1 In this section we set out the key findings from our updated analysis of around 21.5 million customer records relating to September 2019 provided to us by the UK’s main broadband providers.⁴¹ We first report on outcomes for all customers, then outcomes for customers who are potentially vulnerable. Finally, we set out the impact of price differential practices on out-of-contract customers.
- 3.2 The data reported in this section provides a baseline for analysis, against which we will monitor changes over time. It was collected ahead of the implementation of ECNs and ABTNs,⁴² as well as the majority of providers’ commitments and changes to their pricing strategies, which we set out in the next section. Our approach to monitoring is set out in section 5.
- 3.3 Annex A2 describes the data collection process and our approach to analysis in greater detail, including any differences between the methodology or the data used in our initial report and in this report.

Outcomes for all customers

As in our initial report, around 40% of customers are out-of-contract

- 3.4 The proportion of customers who are in or out-of-contract is little changed from the previous year (40% or 8.7m in September 2019 compared to 41% or 8.8m in November 2018).
- 3.5 Re-contracted customers now comprise the largest group, increasing slightly from around 39% in November 2018 to 41% in September 2019. The proportion of customers who are in their first contract with their provider (i.e. are new customers) has decreased slightly, from around 21% to 19%. The distribution of customers by contract status is shown in Table 1 below.

Table 1: Contract status of broadband customers, across providers

	September 2019	November 2018
Out-of-contract	40%	41%
Re-contracted	41%	39%
New customers	19%	21%

⁴¹ As for our initial report, the data presented here was formally requested from the six biggest broadband providers in the UK (BT, EE, Plusnet, TalkTalk, Sky and Virgin Media) who collectively account for nearly 90% of retail broadband connections in the UK.

⁴² As this data relates to September 2019, and ECNs and ABTNs came into force in February 2020.

Source: Ofcom analysis of provider data

- 3.6 In addition to whether or not someone is out-of-contract, an important indicator for understanding the extent to which someone may have difficulties engaging is the amount of time they have spent out-of-contract. It is possible that those who have been out-of-contract for long periods find it difficult to shop around and/or get the best deal for their needs.
- 3.7 Around 37% of out-of-contract customers have been out-of-contract for two or more years. This equates to around 3m customers and, although the figures are not directly comparable, this is consistent with the findings in our initial report.⁴³
- 3.8 With the exception of one provider, those who have been out-of-contract for more than two years tend to pay slightly more per month than those who have been out-of-contract for up to two years (by around £1-£2 per month). This indicates that these customers are not only paying more in comparison to new and re-contracted customers, but also compared to those whose contracts have ended more recently.

Virgin Media continues to have the highest proportion of customers who are out-of-contract

- 3.9 We continue to observe considerable variation between providers in terms of the contract status of their customers, as shown in Table 2.

Table 2: Contract status of all customers, by provider

	% of customers who are <u>out-of-contract</u>	% <u>point change</u> in % who are out-of-contract⁴⁴	% of customers who are <u>re-contracted</u>	% of customers who are <u>new customers</u>
BT	30%	-1%	55%	14%
EE	24%	-4%	48%	29%
Plusnet	42%	+1%	31%	28%
Sky	42%	-5%	39%	19%
TalkTalk	25%	-1%	49%	26%
Virgin Media	61%	+5%	23%	16%
Total	40%	-1%	41%	19%

⁴³ Both figures in this paragraph exclude the customers of one provider due to data issues with long-term out-of-contract customers, which means that for this group the out-of-contract tenure measure cannot be reliably calculated. Out-of-contract customers with unknown out-of-contract tenure are also excluded from the calculation. To make the November 2018 numbers comparable to September 2019 numbers shown in this paragraph: if we excluded this provider, in November 2018 there were also about 3m out-of-contract customers that have been out-of-contract for two or more years and this represented 36% of all out-of-contract customers.

⁴⁴ Change since November 2018.

Source: Ofcom analysis of provider data.

- 3.10 Most providers have a similar or smaller proportion of out-of-contract customers than in November 2018. Sky and EE have reduced the proportion of out-of-contract customers. The proportion of BT's,⁴⁵ Plusnet's⁴⁶ and TalkTalk's⁴⁷ customers who are out-of-contract has remained largely flat.
- 3.11 However, Virgin Media has seen an increase in the proportion of its customers who are outside their minimum contract period. As in November 2018, it is the only provider with more than half of its customers in this position.
- 3.12 We welcome the steps taken by Sky and EE to decrease the proportion of customers who are out-of-contract. However, we are concerned that the proportion of Virgin Media's customers who are out-of-contract remains high and has increased since November 2018. As set out in more detail in section 5, we intend to continue to monitor and report on the proportion of out-of-contract customers by provider.

The amount out-of-contract customers pay compared to the average is much the same as in November 2018

- 3.13 We have used a new approach to calculate the impact of price differentials on out-of-contract customers – comparing out-of-contract prices to the average.⁴⁸ We think this is a better measure as the average price is a more 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. Using this measure, the per person monthly differential is £4.70. More detail on this approach is provided later in this section.
- 3.14 We also report on the same differentials that we included in our initial report – namely, the per person differentials between the out-of-contract and new customer prices and out-of-contract and re-contracted prices. These measures give an indication of how much an average individual customer in a particular contract status pays compared to another in a different contract status. The measures also help to provide comparability with our initial report.

⁴⁵ 31% in November 2018 vs 30% in September 2019

⁴⁶ 41% in November 2018 vs 42% in September 2019

⁴⁷ 26% in November 2018 vs 25% in September 2019

⁴⁸ 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: Average monthly price differentials⁴⁹ paid by broadband customers

	Average price differential paid per month, across providers (September 2019)	Average price differential paid per month, across providers (November 2018)
Out-of-contract price – average price	£4.70	£4.70
Out-of-contract price – new customer price	£13.00	£10.40
Out-of-contract price – re-contracted customer price	£9.70	£8.60
Re-contracted customer price – new customer price	£4.40	£3.70

Source: Ofcom analysis of provider data

The difference between out-of-contract prices and new customer prices increased in 2019, largely due to further discounting of new customer prices

- 3.15 Table 3 shows that the OOC-NC per person differential has increased since November 2018. Out-of-contract customers now pay £13 more per month on average than new customers, and around £10 more than those who have re-contracted.⁵⁰ This compares to around £10 and around £9 respectively on a like for like basis in November 2018.⁵¹ This shows that there are still substantial savings to be made by switching provider or re-contracting.
- 3.16 The increase in the OOC-NC differential is largely driven by reductions in new customer prices, rather than increases in out-of-contract prices. This is true at the aggregate level, and for most providers. To illustrate, average monthly spend by out-of-contract customers decreased in this period,⁵² while over the same period, average spend by new customers also decreased, but by a greater amount.^{53,54}

⁴⁹ Note that rows 1, 3 and 4 are calculated by averaging individual customers' price differentials (which compare their individual price with an average price for a similar service but a different contract status), rather than as the difference between average prices by contract status. The first and third rows cannot therefore be used to calculate the fourth row.

⁵⁰ Please see Annex A2 on why we are not showing a range of estimates in this report.

⁵¹ For an individual customer (e.g. OOC) their price is compared to an average price for a similar service (i.e. a combination of speed band, data allowance and tariff) of customers with a different contract status (e.g. NC). For Virgin Media all elements of a customer's package are taken into account when making a like-for-like comparison (broadband, and calls and TV where relevant). Please see Annex A2 for more detailed methodology.

⁵² By £0.70, from £47.00 to £46.30.

⁵³ By £1, from £30.20 to £29.20.

⁵⁴ A simple comparison of average spend between out-of-contract and new customers ignores product mix effects. To ensure like-for-like comparison, we calculate price differentials at an individual customer level taking into account product characteristics. Therefore, the difference between average spend of out-of-contract and new customers is not equal to the average price differential for out-of-contract customers (OOO-NC differential in this example).

- 3.17 The increase in the differential has also been affected by the movement of customers to higher speeds, which tend to have higher OOC-NC price differentials in absolute terms.
- 3.18 We note that gap between current advertised prices for new customers and the price they will pay at the end of their minimum contract period has narrowed between 2018, when we began looking at broadband pricing, and Q1 2020. This suggests that we may see a decrease in the OOC-NC differential as today's new customers come to the end of their contract.⁵⁵
- 3.19 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 4 below, and details of how they are calculated are in Annex A2.

Table 4: Price differentials in September 2019, by provider⁵⁶

	OOO-average price differential per month	Average OOC-NC price differential per month	Average OOC-RC price differential per month
BT	£4.20	£13.70	£5.10
EE	£7.90	£11.20	£11.20
Plusnet	£5.10	£10.20	£7.40
Sky	£4.30	£9.00	£7.40
TalkTalk	£6.90	£11.20	£9.60
Virgin Media ⁵⁷	£4.30	£16.90	£14.40
Total	£4.70	£13.00	£9.70

Source: Ofcom analysis of provider data. Numbers in the table are rounded to the nearest 10p.

- 3.20 Between 2018 and 2019 there has been an increase in the average OOC-NC differential per customer per month for most providers.⁵⁸ We note that Virgin Media now has the highest OOC-NC differential, as well as the highest proportion of customers who are out-of-contract. Its OOC-average differential is relatively small because of the high proportion of its customers who are out-of-contract. As these customers pay higher prices than new or

⁵⁵ Further detail on advertised prices is contained in Annex A2, Figure 8 and paragraph A2.20.

⁵⁶ Note that these figures are calculated by averaging individual customers price differentials (which compare their individual price with an average price for a similar service but a different contract status), rather than as the difference between average prices by contract status, therefore the average OOC-NC and OOC-RC differential cannot be used to calculate the average RC-NC differential.

⁵⁷ Virgin Media prices include billable calls for dual and triple play customers and TV packages for triple play customers. As set out in detail in Annex A2, we use a different approach to calculating differentials for Virgin Media than for other providers. For Virgin Media, price differentials are calculated for a comparable combination of tariff, broadband, call and TV package (where relevant) and data allowance. In addition, Virgin Media's price differentials calculated in this report are not directly comparable to the ones reported in the initial report.

⁵⁸ We note that TalkTalk's OOC-NC differential decreased between November 2018 and September 2019. The difference for TalkTalk between November 2018 and September 2019 estimates can (at least partially) be attributed to two sources: (1) we attempted to remove the call element from the bills for some legacy products where calls were included but not charged separately, and (2) a possible change in methodology on attributing discounts to different elements of the bill. Please see Annex A2 for more detail.

re-contracted customers, this pushes up the average price.

Outcomes for vulnerable customers

Our measure of vulnerability includes those who are disabled, those who are aged 65+, and those who are financially vulnerable

- 3.21 Our statutory duties mean that we must consider the vulnerability of those whose circumstances may mean they need special protection, the needs of people with disabilities, who are elderly, or who are on a low income.⁵⁹ Our Fairness Framework outlined how we have interpreted our objectives under the Communications Act 2003 as requiring Ofcom to take particular steps where pricing practices adversely affect vulnerable customers.⁶⁰ We have also introduced a general condition - GC C5 - requiring providers to have procedures and policies in place for the fair and appropriate treatment of vulnerable consumers.
- 3.22 Taking these duties, GC C5, and our Fairness Framework into account, we place particular importance on safeguarding the interests of vulnerable consumers.
- 3.23 We recognise that any individual indicator of vulnerability does not automatically mean that all customers with such indicators struggle to engage,⁶¹ or that the impact of paying a high out-of-contract prices is more severe for them.
- 3.24 However, some indicators of vulnerability do appear to correlate more closely with poorer outcomes for consumers. For example, the evidence shows that the older someone is the more likely they are to be out-of-contract, and less likely to re-contract or switch to a new provider.⁶²
- 3.25 Our consumer research also found that those aged 65+ are more likely than average to lack confidence engaging, which can affect their ability to get a good deal.⁶³ In addition, the impact of paying a high out-of-contract price is proportionately greater for those facing financial difficulties, even if this group of customers may not exhibit any other indicator of vulnerability.⁶⁴ We also note that the impact of paying the high out-of-contract price for this group could be made worse by the economic consequences of Covid-19.

⁵⁹ Section 3(4) [Communications Act 2003](#)

⁶⁰ Ofcom, 23 January 2020, [Making communications markets work well for customers: A framework for assessing fairness in broadband, mobile, home phone and pay TV](#), p. 1

⁶¹ Ofcom, 25 September 2019, [Helping consumers get better deals: A review of pricing practices in fixed broadband](#), paragraph 4.9

⁶² Ofcom, 25 September 2019, [Helping consumers get better deals: A review of pricing practices in fixed broadband](#), Table 9

⁶³ See Ofcom, 25 September 2019, [Helping consumers get better deals: A review of pricing practices in fixed broadband](#), Paragraph 4.44

⁶⁴ As set out in our initial report, ONS data on household expenditure shows that spend on broadband represents a greater proportion of lower-income than higher-income households' expenditure. Ofcom's 2018 Affordability Tracker found that 6% of DE households had experienced difficulties paying for broadband in the past 12 months, compared to the average of 3%. Both datasets pre-date the onset of Covid-19.

We use data recorded by providers to understand outcomes for vulnerable customers

- 3.26 To analyse the prices paid by vulnerable customers, we used data requested from providers using our information gathering powers.⁶⁵ As in November 2018, providers use a range of indicators to record information on customer vulnerability. These indicators vary between providers. For example:
- Three providers collect data on their customers' age (BT, Sky and Virgin Media). As was the case in November 2018, those recorded as being aged 65+ make up a considerable proportion of the total number recorded as potentially vulnerable for these providers.
 - Two providers (BT and Sky) were able to produce information relating to the financial circumstances of their customers, such as whether somebody is on a low income, or in arrears.⁶⁶
- 3.27 Although the respective financial vulnerability data sets collected by BT and Sky are not directly comparable, they nevertheless help us to identify customers who are potentially financially vulnerable for the purposes of our data analysis.
- 3.28 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.
- 3.29 Throughout the rest of this section, unless otherwise stated, when we refer to 'vulnerable customers' we mean customers with any indicator of vulnerability, including age 65+ and financial vulnerability, as well as those whom providers have identified as needing additional support (for example, because they are disabled).

⁶⁵ We requested from providers any data which they hold which could indicate potential vulnerability. When requesting this data, we used the indicators outlined in the GC C5 as well as age 65+ and any indicators of financial vulnerability as a starting point. We recognise that providers have discretion to record information about their customers' needs or characteristics in different ways. Some providers record customer vulnerability using different categories for specific vulnerabilities, where they are aware that someone needs additional support as a result (such as whether someone is disabled, is experiencing a mental health problem, or has granted Power of Attorney to someone else to make decisions on their behalf). Other providers do not break down vulnerability types, and instead use a generic 'vulnerable' category which could encompass any customer with a vulnerability whom they have identified as needing additional support from their provider. Providers also used the information they collect to meet the rules in place for their disabled customers (GC C5.6 to 5.13). This information includes, for example, whether a customer receives large print bills, or uses a text relay service.

⁶⁶ Sky used the following as indicators of economic vulnerability: (i) customer granted a payment holiday (available to customers taking a Sky Mobile CCA agreement for a handset and falling into debt), (ii) debt written-off and/or (iii) bankruptcy. In each case as recorded in the 12-month period up to 30 September 2019. For BT this category included customers with socio-economic group "D/E" or income less than £15k per annum, according to a third-party model. BT stated it cannot guarantee the accuracy of this data.

The proportion of customers who are recorded as vulnerable by their provider has slightly increased, although it remains significantly lower than we might expect

- 3.30 In our initial report, we found that the proportion of customers whom providers have recorded as vulnerable is lower than we might expect,⁶⁷ and that the proportion varies considerably between providers.⁶⁸
- 3.31 We also said that, as the previous data was collected only two months after the new protections for vulnerable customers under Ofcom’s General Conditions⁶⁹ came into force,⁷⁰ we would expect the proportion of customers recorded as vulnerable to increase in future. In particular, GCs C5.2 – 5.3 require providers to introduce policies for recording customer vulnerability to ensure they are treated fairly.
- 3.32 The figures from September 2019 demonstrate that 18% of UK broadband customers are recorded as potentially vulnerable by their provider, including age 65+ as an indicator,⁷¹ while the equivalent proportion excluding age 65+ as an indicator is 6%. Removing customers aged 65+ or with a financial vulnerability leaves just over 1% of customers with a vulnerability flag. This figure (of just over 1%) is an approximation of the proportion of customers recorded as being disabled or having a mental health problem.⁷²
- 3.33 As in November 2018, these figures show significant variation by provider, which is mainly driven by whether or not they record information about their customers’ age. Further details are included in Table 5.

Table 5: Proportion of broadband customers identified as vulnerable in September 2019

	% including all vulnerability indicators	% excluding age 65+ as an indicator	% excluding age 65+ and financial vulnerability as an indicator
Total	18.0%	5.9%	1.2%
Proportionate change in the number of customers since November 2018 ⁷³	+5%	+6%	+13%

⁶⁷ See Ofcom, September 2019, *Helping Consumers get better deals: a review of pricing practices in fixed broadband*, paragraphs 4.11 – 4.12.

⁶⁸ We reported in September 2019 that, when age 65+ was included as an indicator of vulnerability, 17.0% of customers were recorded as being vulnerable or potentially vulnerable, falling to 5.5% when age 65+ was excluded as an indicator.

⁶⁹ Ofcom, 19 September 2017, *Review of the General Conditions of Entitlement*

⁷⁰ GC came into force on 1st October 2018, and the data reported on in September relates to 30th November 2018.

⁷¹ While three providers hold information on their customers’ ages, we note that they do not necessarily consider being 65+ to be an indicator of vulnerability.

⁷² We note that this category also includes customers with transient vulnerabilities (e.g. recent bereavement), although the number of such customers is very low.

⁷³ Figures reported in this row represent the relative, not percentage point, change.

Source: Ofcom analysis of provider data

- 3.34 Overall, recording of vulnerability by providers increased slightly in the period between November 2018 and September 2019. Taking into account any indicator of vulnerability, the proportion of potentially vulnerable customers increased by 5%.
- 3.35 However, based on our research, the proportion of customers who are identified as vulnerable remains low when compared to Ofcom market research. For example, around one third (34%) of broadband account holders are either age 65+, disabled (including mental health problems),⁷⁴ or in socio-economic group E,⁷⁵ according to our research.⁷⁶ This compares to the figure of 18% recorded by providers. (We discuss in more detail how providers' recording of customers' vulnerability compares to what we might expect in Annex A2.)
- 3.36 The gap between what providers have recorded and what we might expect to see means the following analysis should be viewed as indicative of the outcomes for these customers.⁷⁷ We discuss in section 4 the importance of providers improving their recording of vulnerable customers, as this will enable them to better provide support to those who need it. In turn, it can help us to improve our confidence in the analysis of outcomes for vulnerable customers.

In general, vulnerable customers are only slightly more likely than average to be out-of-contract, although they tend to remain out-of-contract for longer

- 3.37 The latest data shows a similar picture for vulnerable customers in relation to contract status as our previous analysis. As can be seen in Table 6, 42% of vulnerable customers are out-of-contract, similar to the figure of 40% in relation to all customers who are out-of-contract.
- 3.38 Also consistent with our initial report, we find that vulnerable customers are less likely than average to be in their first contract with their provider and are more likely to have re-contracted.

Table 6: Contract status of all customers and all vulnerable customers

	% out-of-contract	% of OOC who have been OOC for 2+ years	% re-contracted	% new customers
All customers	40%	37%	41%	19%

⁷⁴ Ofcom's definition of 'disability' includes individuals who self-report that issues with their hearing, eyesight, mobility, dexterity, breathing, social behaviour or mental health 'limit their daily activities or the work they can do'.

⁷⁵ Socio-economic group E includes those who are state pensioners, casual and lowest grade workers, and those who are unemployed with state benefits only.⁷⁵

⁷⁶ Please see Annex A2, paragraphs A2.37-2.46 for more detail on how this was calculated.

⁷⁷ This is because providers are only recording details for a subset of their vulnerable customers. We are unable to establish the extent this 'sample' is representative (in terms of outcomes) of the wider group of vulnerable customers that our market research suggests exists. As such analysis of the provider data should be seen as indicative only.

All vulnerable customers	42%	44%	46%	12%
Vulnerable customers, excluding age 65+ as an indicator	32%	43%	53%	15%
Vulnerable customers, excluding age 65+ and financial vulnerability as indicators	40%	41%	48%	12%
Customers aged 65+	45%	44%	45%	10%

Source: Ofcom analysis of provider data

- 3.39 As in November 2018, those aged 65+ are considerably less likely than average to be new customers. Accordingly, they are more likely to be out-of-contract and to have re-contracted. However, when comparing the data from the providers who collect information relating to age,⁷⁸ the difference between the proportion of those aged 65+ who are out-of-contract and the proportion of all other customers who are out-of-contract is less pronounced (45% compared with 44%).
- 3.40 We noted above that the length of time someone has been out-of-contract could be an indicator of the extent to which they struggle to engage and find a better deal. 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). This is the case both including and excluding age 65+ as an indicator (44% and 43% of those who are out-of-contract respectively, compared to the average of 37%).⁷⁹
- 3.41 Older customers are more likely to have been out-of-contract for two or more years. 44% of those out-of-contract customers who are aged 65+ have been in this contract status for at least two years, compared to the average of 37%. This is even more pronounced among those who are 75+.⁸⁰

Vulnerable out-of-contract customers pay a lower price differential compared to the average price, than customers overall

- 3.42 Vulnerable out-of-contract customers pay £3.90 more than the average price for their product across all contract status types. This is less than the figure of £4.70 for all customers reported above. However, when looking at how much more out-of-contract vulnerable customers typically pay per month than new customers, this is slightly higher than for all customers (£14 compared to £13).

Table 7: Price differentials for vulnerable customers

⁷⁸ I.e. BT, Sky and Virgin Media.

⁷⁹ All numbers exclude customers of one provider due to data issues with long-term out-of-contract customers for whom the out-of-contract tenure measure cannot be reliably calculated. Out-of-contract customers with unknown out-of-contract tenure with any provider are also excluded from the calculation.

⁸⁰ This finding is based on data from only two providers (BT and Sky) who were able to provide more detailed age data. Some caution is therefore required in extrapolating to the market as a whole.

	OOO-average price differential per month	Average OOO-NC price differential per month	Average OOO-RC price differential per month
All vulnerable customers	£3.90	£14.00	£9.00

Source: Ofcom analysis of provider data

- 3.43 As in our initial report, we also investigated whether certain categories of vulnerable customers pay higher or lower prices for similar products within the same contract status.⁸¹ This shows that on average, across contract status types, the price they pay is broadly similar to the average price for a comparable broadband service, with the greatest per month difference (for re-contracted customers) standing at less than £1 per month. Looking at the prices paid by customers aged 65+, the effect of age also appears to be relatively small.⁸² These findings are similar to those in our initial report.
- 3.44 We have also examined whether vulnerable customers are under- or over-represented among customers paying the highest prices for their broadband. Overall, vulnerable customers are under-represented among either those paying prices in the top decile, or in the top quartile (15% and 15% respectively, compared to 18% of these customers in the customer base overall).⁸³
- 3.45 This is also true for those aged 65+, who make up 18% of customers with providers who record this information, but 16% of those paying the prices in the top decile, and 16% in the top quartile.

Those living in the most deprived areas are more likely than average to be in their first contract with a provider

- 3.46 We have also examined the contract status of, and prices paid by, financially vulnerable customers, since paying a high out-of-contract price may also exacerbate affordability issues. Only two providers (BT and Sky) were able to give us data on the financial vulnerability of their customers. Therefore, as in our initial report, we have drawn on Indices of Multiple Deprivation (IMD) data (as a proxy indicator of people who are financially vulnerable).⁸⁴

⁸¹ Please see Annex 2 for more information on how we conducted this analysis.

⁸² Ranging from -£0.76 to £1.76 more per month.

⁸³ In our initial report, we reported the proportion of vulnerable customers excluding age and financial vulnerability as indicators who were paying prices in the top decile and top quartile. Using this metric for the updated data, we find a similar picture – these customers represent 1% of all customers, and 1% of those paying prices in the top decile and top quartile.

⁸⁴ 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. More information and the data itself is available via these links:

England: Gov.uk, [English indices of deprivation 2019](#) (accessed 14.07.20)

Northern Ireland: NISRA.gov.uk, [Northern Ireland Multiple Deprivation Measure 2017](#) (accessed 14.07.2020)

Scotland: Gov.scot, [Scottish Index of Multiple Deprivation 2020](#) (accessed 14.07.2020)

- 3.47 As was the case in November 2018, we found that customers with postcodes in the most deprived decile of the UK are in fact more likely than those in the rest of the UK to be in their first contract (24% compared with 18%), suggesting that these customers take particular advantage of the good deals available by switching provider. They are correspondingly slightly less likely to be out-of-contract or re-contracted than those in the rest of the UK.
- 3.48 We have also examined the prices paid by customers in the most deprived areas of the UK. With the exception of one provider, this analysis shows that typically, customers living in the most deprived postcodes in the UK pay slightly less than, or a very similar amount per month to, those in the rest of the UK.⁸⁵

Estimated impact on out-of-contract customers

In our view, comparing out-of-contract prices to average prices is a more reliable way to measure the potential impact of price differentials on out-of-contract customers

- 3.49 In its super-complaint submission to the CMA, Citizens Advice compared prices paid by out-of-contract customers to prices paid by new customers benefiting from introductory offers – which it described as a ‘loyalty penalty’. It found that the “cost of the loyalty penalty” to broadband customers was approximately £1.3bn per annum. Customers were assumed to be paying this penalty if they had been with their provider for more than three years.⁸⁶
- 3.50 In our initial report, we estimated the total out-of-contract - new customer (OOC-NC) broadband price differential to be up to £1.1bn per annum.⁸⁷ The estimation approach we used in our initial report differed to that taken by Citizens Advice in a number of ways:
- It was based on actual prices paid using data gathered from broadband providers, rather than a comparison between advertised discounted and list prices;
 - We were able to identify which longstanding customers were out-of-contract from those who had re-contracted with their provider;
 - Comparisons were made as much as possible on a like-for-like basis i.e. between customers with services of a similar speed; and
 - We were able to examine the prices and contract status of vulnerable customers compared to the customer base as a whole.

Wales: Gov.wales, [Welsh Index of Multiple Deprivation: 2019](#) (accessed 14.07.2020)

⁸⁵ Between -£0.80 and £0.60 for OOC, and between -£0.90 and £1.50 for RC. In absolute terms only one coefficient (for one provider) was larger than £1. For other providers the value was below £1.

⁸⁶ Citizens Advice, 28 September 2018, [Excessive prices for disengaged consumers: A super-complaint to the Competition and Markets Authority](#), p.48

⁸⁷ Ofcom, 25 September 2019, [Helping consumers get better deals: A review of pricing practices in fixed broadband](#), paragraph 3.36

- 3.51 In its super-complaint response, the CMA noted the importance of having “a meaningful benchmark in mind” to assess the impact of price differentials.⁸⁸ It suggested that the comparator price should be one that a customer could realistically achieve and pointed to the risk otherwise of overstating the scale of the ‘loyalty penalty’.⁸⁹
- 3.52 In our initial report we also said that the new customer price is not the most appropriate benchmark for estimating the impact of price differentials on out-of-contract customers.
- 3.53 In this section, we therefore present an updated measure reflecting the further work we have done to establish a more reliable benchmark for measuring the estimated impact of price differentials on customers who go out-of-contract.
- 3.54 For any individual customer, our analysis shows that they would save the most by switching provider and taking up a new contract. However, if there were a significant and sustained movement of out-of-contract customers to the deals currently only available to new customers, it is unlikely that the market could sustain such an across the board reduction in prices and hence a reduction in profit margins.
- 3.55 As we explain below, the providers analysed in this review account for nearly 90% of retail broadband connections in the UK.⁹⁰ All have adopted a pricing model with significant price differentials between out-of-contract and in-contract prices.⁹¹ If providers were to significantly lose profits from out-of-contract customers, they would have a strong incentive to restore their margins by raising prices for new and re-contracting customers.
- 3.56 Using current new-customer prices as a benchmark for measuring the impact on out-of-contract customers is problematic because it implies that it would be sustainable for all providers to price down to the new customer level for all customers, without any prospect of price-rebalancing (sometimes known as a “waterbed effect”). This is very unlikely to be the case.
- 3.57 We would expect strong price rebalancing pressures in the broadband market because:
- The difference in revenue implied by the difference in out-of-contract and new-contract prices is significant relative to industry revenues. Having all out-of-contract customers paying new customer prices would mean a loss in revenue of nearly £1.4bn (around 10% of fixed line broadband and voice revenues alone and an even greater proportion of profits);⁹²

⁸⁸ CMA, 19 December 2018, [Tackling the loyalty penalty: Response to a super-complaint made by Citizens Advice on 28 September 2018](#), paragraph 2.55

⁸⁹ CMA, 19 December 2018, [Annex E: Estimates of the loyalty penalty and criteria for measuring the loyalty penalty](#), paragraph 8

⁹⁰ See Ofcom’s [Communications Market report 2019, Summary of UK Telecoms Metrics](#)

⁹¹ A number of smaller providers also adopt such a pricing model, including the [Post Office](#) and [John Lewis Broadband](#). However, we note that not all smaller providers do this – for example, [Zen](#) offers one price to all customers regardless of contract status, and [Vodafone](#) applies only a £3 discount to new customers compared to out-of-contract customers.

⁹² Based on fixed telecoms revenues of c. £14bn for 2018 in Ofcom’s [Communications Market Report 2019](#). By way of illustration of the profit impact, the major providers examined in this review recently reported earnings before interest, tax, depreciation and amortisation (EBITDA) margins averaging around 25% - although there is significant variation between providers and some of the reported figures include additional revenue streams including pay-TV, mobile,

- All providers we have looked at adopt a similar pricing model and have a large number of customers out-of-contract (ranging from 24% to 61% of their customer base);
- Other things equal, the waterbed effect is larger the more competitive the market. In that regard, we note there has not been a significant market power finding in retail broadband (even the largest individual provider, BT, has less than 40% of customers) and all providers compete hard to attract new customers (as indicated in Figure 5);⁹³ and
- Reports by independent analysts have indicated that competition in retail broadband is likely to remain intense.⁹⁴

3.58 Our market monitoring has also pointed to some practical problems with using the out-of-contract to new customer price differential to estimate the impact on out-of-contract customers. For example, and as highlighted earlier in this section, the OOC-NC differential increased between November 2018 and September 2019. Taken at face value, this could suggest an increase in the impact on out-of-contract customers.

3.59 However, closer inspection of the result shows that the increase arose because while both new customer and out-of-contract prices fell on average, the new customer prices for many product segments fell by more than the out-of-contract prices. We also saw a large migration of customers towards higher speed products which tend to have larger differentials. In fact, average monthly spend by out-of-contract customers actually decreased in this period.⁹⁵

3.60 Given these measurement concerns and the significant likelihood of price rebalancing if we were to see a market-wide shift to lower priced services for out-of-contract customers, we think a more realistic benchmark compares how much out-of-contract customers pay to an “average” price for broadband. Since different providers price at different levels and because providers offer a wide-range of broadband packages, we have calculated an average price across all contract status types for customers of similar services with each provider.

enterprise and advertising. If we assume broadband EBITDA margins were typically around 25%, then a 10% reduction in broadband revenues would reduce EBITDA by around 40%. The relative reduction in EBIT would be larger still.

⁹³ BT’s share of retail customers (fixed broadband connections) of 35% in 2018, and even in the year after the acquisition of EE in 2016 was only 36%, taken from [Communications Market Report 2019](#). Note that our analysis excludes the Hull area which has been examined in our consultation [Promoting competition in fibre networks – Hull Area Wholesale Fixed Telecoms Market Review 2021-26](#)

⁹⁴ Barclays stated in their February ETS report that they believe competition “will likely remain intense in calendar year 2020...”. Source: Barclays Equity Research, 4th February 2020, *European Telecom Services: UK pricing in focus as regulation bites*. Enders also referred to retail broadband as competitive in their March 2020 report on UK market trends, with “competition remaining intense” in early 2020. Source: Enders, 4th March 2020, *Shrinking demand, surging supply, UK broadband, telephony and Pay TV trends, Q4 2019*

⁹⁵ From £47.00 to £46.30.

We estimate the potential impact of price differentials to out-of-contract customers is just under £500m a year, including just under £80m to out-of-contract vulnerable customers

- 3.61 In total, we estimate that the potential impact to out-of-contract customers is just under £500m per year, while the impact to out-of-contract customers who are vulnerable (as recorded by their provider) is just under £80m per year.⁹⁶ This estimate is likely to be lower than the impact on vulnerable customers in practice, because (as noted previously) providers' recording of vulnerability is lower than we would expect to see in the population of broadband customers as a whole.
- 3.62 While we consider this approach to be a more accurate measure than the OOC-NC price differential, some caveats remain. For example, it is not certain whether, absent price differentials, average prices by provider would be higher or lower than currently estimated. This is because of the complex interactions in setting prices for differentiated products like broadband when there are many (asymmetric) competing providers.⁹⁷ Nevertheless, we conclude that comparing the differential in individual customer prices from prices averaged over all contract status types for similar services with the same provider is a more realistic measure of the impact of price differentials on out-of-contract customers.

Summary

- 3.63 In summary, our assessment of the latest evidence is that outcomes for vulnerable broadband customers remain broadly similar to those identified in our initial report. In particular:
- a) vulnerable customers remain only slightly more likely than average to be out-of-contract, although they tend to remain out-of-contract for longer;
 - b) vulnerable customers are less likely than average to be in their first contract with their provider, and are more likely to have re-contracted (indicating a lower propensity to switch provider);
 - c) vulnerable out-of-contract customers pay a lower price differential compared to the average than customers overall, but a higher differential compared to new customers than customers overall; and,
 - d) people living in the most deprived areas are more likely than average to be in their first contract with a provider (indicating a higher propensity to switch provider).
- 3.64 Taking these findings together, the evidence as to whether vulnerable customers as a whole are impacted by the practice of price differentiation to a greater extent than customers overall is mixed. As set out in our Fairness Framework, we are concerned where

⁹⁶ As explained in Annex 2, we estimate the differential against average prices to be £485m in 2019. For the customers identified as vulnerable by providers, the differential against average prices is £76m in 2019.

⁹⁷ By asymmetric we mean that different providers have a different scale of customer base, different costs of operation and a wide variation in the distribution of customers by contract status.

there is evidence that the impact of a particular pricing practice can be detrimental to vulnerable customers, even if vulnerable customers as a whole are not disproportionately affected.

- 3.65 In light of our duties, we are particularly concerned wherever customers' vulnerability means it may be more difficult for them to protect themselves.
- 3.66 In the next section, we set out what action is being taken to protect vulnerable customers from paying high out-of-contract prices, as well as an estimation of the benefits this will bring.

4. Our work with industry to help customers get a fair deal

- 4.1 In this section we set out the changes made since our review into broadband pricing began. We set out the voluntary commitments agreed with providers that are targeted specifically at vulnerable customers, as well as other changes that providers have made that will help all customers, including those who are vulnerable.
- 4.2 We subsequently set out our estimates of the benefits that these changes could deliver for customers, including specific calculations of the benefits for vulnerable customers. We conclude the section by setting out areas where we encourage providers to take further steps to support customers.

Voluntary commitments and pricing changes from providers

All major providers have committed to reduce out-of-contract prices paid by vulnerable customers

- 4.3 We have secured targeted voluntary commitments from the UK's major providers, covering nearly 90% of the market, to assist vulnerable customers. Each of these providers is introducing protections for customers that they know are vulnerable, moving those who are paying higher out-of-contract prices onto a better price. The detail of these commitments is as follows:
- BT has given a price reduction to its vulnerable customers who are 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. This took effect in June 2020, benefitting customers who had disclosed a vulnerability. In addition, BT will freeze the prices for all customers who are flagged as vulnerable. BT will also conduct annual reviews with vulnerable customers to discuss whether they are still on the best deal for their needs.
 - EE will give a one-off price reduction for all of its vulnerable customers who are out-of-contract and paying a price higher than that available to new customers. It will reduce the price for these customers to match the best price available to new customers. This change will take effect from Q4 2020/21 and will benefit customers who have disclosed a vulnerability. In addition, EE will freeze the prices for all customers flagged as vulnerable. EE will also conduct annual reviews with its vulnerable customers to discuss whether they are still on the best deal for their needs.
 - Plusnet will proactively engage 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 will immediately reduce their price to the equivalent new customer price. This change will take effect in September 2020 and will benefit customers who have disclosed a vulnerability.

- Sky will conduct an annual price review for vulnerable customers who are out-of-contract to establish whether they are on the best deal available to them, given their contract status. If they are not, Sky will automatically move them onto the best out-of-contract price available to them for their product. This will take effect by the end of November 2020 and will benefit customers who have disclosed a vulnerability.
- TalkTalk has conducted the first of its annual price reviews for all out-of-contract vulnerable customers and offered them access to the best new customer prices. It will automatically move customers onto these best prices where they do not respond. This took effect in January 2020 and benefitted customers who had disclosed a vulnerability.
- Virgin Media will conduct annual price reviews for vulnerable customers to help them get onto the best deal for their needs. If customers do not respond, Virgin Media will reduce 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.⁹⁸ This change will be rolled out by the end of 2020 and will benefit customers who have not engaged for a total of three years or more (including any time in contract), and have either disclosed a vulnerability or are aged 65+. Virgin Media will also exclude all customers meeting these criteria from future increases to their monthly recurring price.

4.4 These changes will provide significant support to many eligible vulnerable customers, as scaled below. We welcome the steps industry has taken to help out-of-contract customers get a better deal. At the same time, we think providers need to do more in certain key areas, as set out later in this section.

Providers have made other changes since the start of this review that will help all customers, including those who are vulnerable

4.5 Since we initiated our review in December 2018, providers have introduced various changes to their pricing strategies that will benefit customers. These include changes that will help customers whom providers are unable to engage with directly, as well as further support for those customers who engage. These changes will benefit broadband customers in general, including those who may have a vulnerability but do not benefit from the targeted interventions described above.⁹⁹

4.6 The pricing changes set out below include:

- Reducing the average price differential paid;
- Offering existing customers access to advertised new contract prices;
- Free upgrades; and
- Improvements in dual-play social tariff products.

⁹⁸ Where the product is no longer available, the nearest equivalent product will be used.

⁹⁹ This could be, for example, because they have not disclosed their needs to their provider or are not classified as vulnerable under the terms of their provider's policy.

4.7 Four major providers have made changes to reduce the average differential paid by those who fall out-of-contract. The changes are as follows:

- BT has capped the difference between its in- and out-of-contract prices for new or re-contracting customers at £8, and will reduce this cap to £5 over the next three years in a phased manner. Since February 2020, BT's cap has been applied to existing customers coming out-of-contract, and this will continue to be applied as the cap is reduced for customers coming out-of-contract. BT has also introduced a £0 differential for its BT Halo product from February 2020.
- EE has, from June 2020, capped prices for new or re-contracting customers at a maximum of £10 above broadband in-contract prices. It will reduce this cap to between £8-£10 within the next 12 months, including applying it to existing customers who come out of contract and do not engage.
- Sky has, since April 2019, made a commercial decision to reduce its in- and out-of-contract price differential to £5 per month, for new customers and re-contracting customers.
- TalkTalk has reduced the in- and out-of-contract differential of its Faster Fibre product to £7 per month and its Faster Fibre Speed Boost to £9 per month, for new and re-contracting customers.¹⁰⁰ This change took effect from 1 April 2020, and the new pricing levels have also been applied to existing customers who have fallen out-of-contract since that date.

4.8 In addition to the introduction of ECNs and ABTNs, **BT, EE, Plusnet, Sky and TalkTalk** will all offer existing customers access to their advertised new customer prices.¹⁰¹ Customers responding to these notifications should therefore pay the same price as new customers and avoid a re-contracting premium. These discounts may encourage some customers to engage who otherwise would not have done so, as well as helping some who would have engaged to access lower prices than they may otherwise have secured.

4.9 Some providers will be moving customers to faster services or removing data limits, without any change in their price. We know that:

- **BT** will migrate its standard broadband customers in fibre-eligible areas to superfast fibre, for the same price as they are paying for standard broadband, by early autumn 2020.

¹⁰⁰ These are based on reducing the standard out-of-contract price for its Faster Fibre broadband customers to £29.95, and its Faster Fibre Speed Boost to £34.95.

¹⁰¹ For BT, EE and Plusnet, new customer prices will be available for one month from the date of the notification for ABTNs, whereas for ECNs, the new customer price will be available for the period between the notification and the end of the contract, which should be between 40 and 10 days.

Sky's current approach is to send ECNs 40 days before customers' contracts expire and offer new customer prices until the contracts expire, while customers receiving ABTNs can access new customer prices for 30 days after the notification has been issued.

TalkTalk will allow out-of-contract customers to access new customer prices all year round.

- **Virgin Media** will upgrade more than one million of its existing broadband customers to a new minimum speed of 108Mbit/s at no extra charge, mostly from speeds of around 50Mbit/s or below, by the end of July 2020.
 - **BT and Plusnet** have both permanently lifted data caps for all broadband customers, which will benefit customers who previously had capped monthly usage.
- 4.10 For standard broadband customers who cannot be upgraded because they live in non-fibre areas, **BT** has given a price reduction to £29.99 so that they are not paying any more than the fibre acquisition price at the point this change was confirmed.¹⁰² This change took effect by the end of June 2020 and did not require customers to take any action. We consider this commitment from BT addresses our concerns about price differentials for customers in non-superfast areas.
- 4.11 TalkTalk will cap out-of-contract price increases for many of its customers at no more than CPI, while also freezing prices for all in contract customers.¹⁰³ We will continue to monitor prices paid by out-of-contract customers, including considering the effects of any inflationary price increases.
- 4.12 To help customers who are most financially vulnerable, **BT and KCOM have had social tariffs** in place for some time on a voluntary basis in their capacity as Universal Service Providers. Both providers have recently **removed data caps from these products**¹⁰⁴. As set out in section 5, Ofcom is reviewing affordability of broadband services and will consider whether any further support is needed for customers who experience affordability problems.

Our assessment of the benefits of these commitments and pricing changes

We estimate the vulnerability commitments, wider pricing changes and free service upgrades could ultimately be worth over £270m per year

- 4.13 We have used the snapshot of September 2019 data and some assumptions (detailed in Annex A2) to estimate the potential value to customers of the providers' commitments and pricing changes. We have estimated the benefits to all out-of-contract customers, and have also presented the benefit to the subset of vulnerable out-of-contract customers.¹⁰⁵
- 4.14 These estimates should not be seen as forecasts. Rather, they are designed to estimate what the annual benefit to out-of-contract customers could be in a single year if the changes had been fully implemented in time to benefit all such customers (as measured in

¹⁰² BT's cheapest new customer fibre broadband product was £29.99 in March 2020, when this change was designed.

¹⁰³ TalkTalk's CPI cap will apply to all customers except for a group of ADSL customers whose products have not been on the market for at least 5 years.

¹⁰⁴ More detail on these changes is provided in section 5.

¹⁰⁵ Providers' definitions include the customers that providers have shared information with us for analysis on and included in eligibility for targeted commitments. Where we use a broader definition, this includes factors such as age and financial vulnerability which are not necessarily used by all providers in their targeted commitments.

September 2019). Our calculations do not take into account the benefits of ECNs and ABTNs. The estimates presented below are based on assumptions and a full methodology is set out in Annex 2.

- 4.15 We estimate that the annual benefit to all out-of-contract customers as a result of all the provider measures could ultimately be over £270m. We can break the provider benefits into the following two broad groups:
- **A reduction in prices relative to the baseline**, i.e. from policies such as the vulnerability-specific commitments, the reduction in price increases for customers who fall out-of-contract, and BT's standard broadband price reduction. We have estimated that the price reduction policies and changes could ultimately save out-of-contract customers over £230m per annum in total, including the commitments specifically targeted at provider-defined vulnerable customers. BT's standard broadband price reduction and the commitments targeted at vulnerable customers will be implemented and realised very quickly. However, the full benefits of the reductions in increases in price to customers who fall out-of-contract are likely to be realised over time, as customers who have entered contracts affected by some of these policies fall out-of-contract. We estimate that ultimately these changes could benefit around 3m out-of-contract customers, representing an annual saving of over £70 per customer per year on average.
 - **Free upgrades**, i.e. BT's migration of customers to superfast broadband, BT and Plusnet's uncapping broadband data allowances, and Virgin Media's free speed upgrade. We estimate that these service upgrades for no extra charge could be worth more than £40m per year for out-of-contract customers, and the benefits are expected to be realised quickly.
- 4.16 We estimate that the pricing policies and service upgrades could ultimately benefit out-of-contract customers by over £270m per year. Using the OOC-average price differential as our benchmark measure of the potential impact on out-of-contract customers (which is just under £500m), this implies that more than half of the impact on out-of-contract customers could be addressed by price reductions and free service upgrades.
- 4.17 We estimate that providers' vulnerability commitments could save those customers around £8m per year. The policies will benefit just over 0.1m provider-defined vulnerable customers who are out-of-contract, saving them over £70 each per year on average. Eligibility for this support – with the exception of Virgin Media's broader approach – is based on customers who have disclosed a vulnerability to their provider.
- 4.18 Other customers with vulnerabilities who are not eligible for targeted support will benefit from the wider pricing changes described earlier in this chapter. We have taken a more inclusive approach to estimating the total annual value to vulnerable customers, including potentially vulnerable customers such as those aged 65+ and those who may be financially vulnerable.

4.19 Table 8 below shows that the annual value to vulnerable customers of the provider policies and changes taken as a whole could ultimately be over £70m per year.¹⁰⁶

Table 8: Estimated annual value of provider pricing changes for vulnerable customers

Type of proposal	Value to vulnerable out-of-contract customers
Vulnerability specific commitments	£8m
Price changes	£50m
Free service upgrades	£17m
Total value	£74m¹⁰⁷

4.20 We calculate that providers had around 1.6m out-of-contract potentially vulnerable customers who were not offered targeted support in 2019. We estimate general pricing policies and service upgrades, combined with the vulnerable specific policies may ultimately benefit around one million vulnerable out-of-contract customers, by an average of around £70 per year each.

4.21 We use the OOC-average price differential of just under £80m as our preferred benchmark for the impact of price differentials on vulnerable out-of-contract customers. With this, the changes to the providers' pricing strategies and service upgrade policies appear to largely offset the impact of price differentials on the customers currently identified as vulnerable.

4.22 As discussed in section 3, providers' recording of vulnerability is lower than we might expect to see, particularly of those who are disabled or who have a mental health problem. This means that it is likely that some people who may benefit from additional targeted support to get a better deal may not receive it.

4.23 While we welcome the steps that providers have taken to protect vulnerable customers, we believe there is room for providers to do more for these customers. Further detail on providers' recording of vulnerability and the number of people targeted by the vulnerability commitments compared to what we might expect is set out in Annex A2.

How we want providers to improve their support for vulnerable customers

4.24 We welcome the action taken to date by the main providers to protect vulnerable customers who may struggle to get a better deal. Nevertheless, we call on providers to improve recording of vulnerability, taking account of our 'Treating vulnerable customers fairly' guide, and to improve the design of targeted support for these customers. We also

¹⁰⁶ Some providers have been able to report information on age (65+ and in some cases 75+) and indicators of financial vulnerability. While most providers are not offering targeted support based on this information (with the exception of Virgin Media, which is including customers aged 65+), we are nevertheless able to illustrate the scale of benefits from the wider policies accruing to these potentially vulnerable customers.

¹⁰⁷ Does not sum due to rounding to the nearest £1m in figures above

call on providers to further consider the needs of vulnerable, including older, customers who struggle to engage.

- 4.25 We welcome the swift action and support taken by providers in committing to work with customers (especially those who are out-of-contract) who find it difficult to pay their bill as a result of Covid-19 to ensure that they are treated fairly and appropriately supported. We have asked providers to continue to be proactive in engaging with customers who are struggling to pay their bills and to offer customers support that is in their best interests.

Improving identification of vulnerable customers and measuring outcomes

- 4.26 We expect providers to better demonstrate how they are improving *outcomes* for vulnerable customers. An essential starting point for this is being able to identify which customers are vulnerable. As detailed in section 3, while the recording of customers identified as vulnerable has increased slightly, there remains significant scope for providers to improve their understanding of customers' specific needs and vulnerabilities.
- 4.27 In our work to understand how people engage with the broadband market, we have taken an inclusive approach to vulnerability, noting that some groups such as older customers and those who are financially vulnerable may not report specific needs, but may lack awareness of the consequences of disengagement or may struggle to engage with information remedies like ECNs or ABTNs. This broader approach also ensures that people whose circumstances may make them vulnerable, but who may not face direct challenges with engagement, are also considered.
- 4.28 As set out in section 5, we have a greater focus on affordability and debt issues following Covid-19. In our analysis of broadband pricing, we observe good practice from **BT and Sky** in being able to identify financially vulnerable customers. While providers can and have innovated with different methods of identifying financial vulnerability, we note that, as a minimum, all providers should be able to report on outcomes for customers who have been in arrears (as an indicator of actual or potential problem debt) alongside their contract status. In future, we expect all providers to be able to report on contract status alongside relevant arrears data.
- 4.29 We also want providers to improve their understanding of the experiences of older customers, and have observed some good practice in this area. We welcome, for example, that **BT, Sky and Virgin Media** have all demonstrated that they have an understanding of the proportion of their customer base that is aged 65+ (BT and Sky also understand outcomes for customers aged 75+). Given the additional challenges that some of these customers may face in finding the right deal for their needs, we expect all providers to be able to report on outcomes for their older customers in future.
- 4.30 Our 'Treating vulnerable customers fairly' guide includes a number of additional measures that providers could adopt to identify potentially vulnerable customers.¹⁰⁸ It encourages

¹⁰⁸ Ofcom, 23 July 2020, [Treating vulnerable consumers fairly: A guide for phone, broadband and pay-TV providers](#)

providers to raise awareness of the help, support and services available, and to make it simple and straightforward for customers to share information.

- 4.31 Better identification and recording of vulnerable customers is an issue that other regulated sectors are also tackling. We will continue to work with industry, other regulators, UKRN, Government and consumer bodies, such as Citizens Advice and the Communications Consumer Panel, to share research and best practice on using data to identify and provide support for consumers who may be vulnerable.
- 4.32 To hold providers to account on improving identification of vulnerability, we intend to monitor and publish data showing the proportion of customers recorded by the major providers as potentially vulnerable. If we do not see significant improvements, we will consider further interventions.
- 4.33 We also intend to monitor outcomes for vulnerable out-of-contract customers and expect to see further reductions in the proportion of these people paying high out-of-contract prices.

Improving the level of support provided by the targeted commitments for vulnerable out-of-contract customers

- 4.34 In our discussions with major providers we have set out our view that targeted protection for vulnerable customers should follow the three principles below to better protect vulnerable customers.
- 4.35 We welcome the fact that **TalkTalk** has already taken steps to follow all of these principles in its targeted support, and encourage the other major providers to strengthen support for vulnerable out-of-contract customers with these principles in mind:
- **Automatic support should be offered where vulnerable customers do not respond to information remedies, such as ECNs or ABTNs.** Automatic support being provided without needing action from the customer is important as many of the customers we are concerned about are less likely to engage and may not, for example, wish to speak on the phone. Automatic support can involve providers reducing prices, without changing the customer's underlying contract status, if necessary. We welcome the fact that all providers have included an automatic element in the design of their measures once customers have reported a vulnerability.
 - **Prices should be reduced below the level being paid by out-of-contract customers.** A reduction in price – for example, the price offered to a customer in an ECN or ABTN where it is lower than the out-of-contract price – addresses the detriment caused by a vulnerable customer's engagement difficulties. Simply being moved to the best out-of-contract price (even where this is lower than the price they are already paying) is not, in our view, sufficient. For example, this price is on average 27% higher than the re-contracted price,¹⁰⁹ and does not fully address the impact caused by the challenges these customers may face in engaging.

¹⁰⁹ Calculated as OOC-RC differential as % of average RC spend. Please see Annex A2 for more details.

- **Such measures should occur regularly**, at least annually. Offering support on an ongoing basis will not only provide continued protection for customers who have already disclosed a vulnerability, but will also ensure that as providers continue to improve their recording of vulnerability, more customers will benefit from targeted support.

4.36 Table 9 summarises how the provider commitments compare to our three principles for effectively supporting out-of-contract vulnerable customers to get a better deal. We welcome improvements that providers have made since our last report on broadband pricing, which mean that vulnerable customers will receive better support, as well as increasing the consistency of treatment of customers across the broadband sector. We encourage **Sky and Virgin Media** to consider more generous discounts for vulnerable customers, particularly those who have been out-of-contract for longer periods. We encourage **BT, EE and Plusnet** to consider providing the same support they are offering vulnerable customers this financial year in future years.

Table 9: Design of targeted protections for vulnerable out-of-contract customers (bold text illustrates where policy is aligned with our principles)

Provider	Protects customers without need for them to act	Equivalent price that non-engaging customers are moved onto	Reviews and protects customers each year
BT	Yes	New customer	Yes*
EE	Yes	New customer	Yes*
Plusnet	Yes	New customer	No
Sky	Yes	Best out-of-contract	Yes
TalkTalk	Yes	New customer	Yes
Virgin Media	Yes	Usually the best out-of-contract	Yes

**BT and EE will conduct future annual reviews, although these will not include automatic price reductions where customers cannot be contacted.*

Targeted support for customers who struggle to pay their bills

4.37 Following Covid-19, initial evidence suggests that many customers will face new affordability challenges across all markets, including in broadband. For example, research from Citizens Advice found that over 6 million people had fallen behind on at least one household bill by April 2020 due to the pandemic.¹¹⁰ Results from the first wave of new Ofcom research into affordability are set out in section 5.

¹¹⁰ See Citizens Advice, 1 May 2020, [Near the cliff-edge: How to protect households facing debt during COVID-19](#)

- 4.38 Our Fairness Framework sets out that we pay particular attention to understanding outcomes for vulnerable customers, and this applies to those who are financially vulnerable. So, we would be concerned where customers who are financially vulnerable, and particularly those who have problem debt, are not given appropriate tariff support. For customers in this group paying high out-of-contract prices, their contract status will exacerbate arrears and, in the worst cases, could contribute to a customer being cut off.
- 4.39 We have been working with industry and government to develop short-term support for customers struggling to pay for communications services due to the impact of Covid-19. In March this year, the Government agreed an initial set of temporary voluntary commitments with providers, including in relation to debt and disconnection, which ran to the end of June.¹¹¹ We welcome the swift action that providers have taken to protect customers who are struggling to pay due to Covid-19.
- 4.40 In June 2020, we wrote to major communications providers to ask them to continue to offer a heightened level of forbearance for customers who are struggling to pay their bills to ensure they remain connected and are well supported. We have said that communications providers should be proactive in engaging with customers who are struggling to pay and offer customers support that is in their best interests.
- 4.41 We have said that customers in debt and on high out-of-contract tariffs should be offered a cheaper, basic tariff. In the case of BT and KCOM, eligible customers should also be offered a social tariff. We have asked providers to offer this additional support to customers from 1 July to 30 September 2020.
- 4.42 This work builds on our ‘Treating vulnerable customers fairly’ guide, which sets out longer term practical measures that providers could adopt to help ensure they are treating vulnerable customers fairly and deliver good outcomes.¹¹² As set out in section 5, we will continue to work with industry and monitor the evidence on affordability ahead of our affordability update later this year. We will closely review whether further support is needed for customers who are struggling to pay as we do this.

Considering further support for vulnerable customers who have not engaged for some time

- 4.43 We encourage providers to continue seeking to help customers with different vulnerabilities get better deals, including by drawing on our ‘Treating vulnerable customers fairly’ guide. This is particularly important where customers have not engaged for some time.

¹¹¹ See gov.uk, 29 March 2020, [Government agrees measures with telecoms companies to support vulnerable consumers through COVID-19](#)

¹¹² The guide is in addition to Ofcom rules, which require that providers must establish, publish and comply with clear and effective policies and procedures for the fair and appropriate treatment of consumers whose circumstances may make them vulnerable. Ofcom, 23 July 2020, [Treating vulnerable consumers fairly: A guide for phone, broadband and pay-TV providers](#)

- 4.44 People who are vulnerable because their circumstances make it harder for them to engage or navigate the market are more likely to be supported in future as providers improve recording of vulnerability, and if they make improvements to existing targeted commitments, as set out above. These people could include, for instance, those with a mental health problem, low literacy or numeracy skills, or who have a disability which makes engaging with their provider more difficult (such as people who are hard of hearing). In addition to the measures already being taken, we encourage providers to continue innovating with other ways to help these customers, particularly where they have not engaged for some time.
- 4.45 Based on the evidence available to us about outcomes for vulnerable consumers, older customers appear to be a group who would benefit from additional support. Our research findings suggest that many older customers lack confidence in various aspects of engaging and are more likely to be out-of-contract, and to be out-of-contract for longer, as set out earlier.¹¹³ The case for additional support appears to be clearest for customers who are aged 75+ and have been out-of-contract for some time.¹¹⁴
- 4.46 In this context, we are encouraging providers to consider the specific needs of their older customers and to provide additional support to help them get better deals. This support could take a variety of forms including, for example, providers taking efforts to proactively make contact with older customers who have not responded to an ECN or ABTN, offering simple advice to customers about what types of packages and deals would suit people with different connectivity needs,¹¹⁵ or providing automatic price reductions if customers cannot engage.
- 4.47 We welcome **Virgin Media's** commitment to include older customers who have not engaged for some time in its targeted measure for vulnerable customers. We encourage all other providers to consider how they can improve outcomes for older customers who are out-of-contract.

Summary

- 4.48 We welcome the targeted commitments made by the UK's major broadband providers to help their vulnerable customers get better deals, as well as wider changes they have made since we began this review that will benefit all customers, including those who are vulnerable. Alongside the introduction of ECNs and ABTNs, these changes will help more customers get good deals.

¹¹³ Although older customers are more likely to face challenges in engaging, we also note that age alone is not always a direct indicator of vulnerability and many older customers are able to engage and get a good deal.

¹¹⁴ As set out in section 2, customers aged 75+ are particularly likely to lack confidence and, as set out in section 3, those aged 65+ are more likely than average to be out-of-contract for longer, with differences even more pronounced for those aged 75+.

¹¹⁵ See Jigsaw, September 2019, [Consumer engagement in fixed broadband](#), pp. 6-8

- 4.49 We estimate the provider price changes and free service upgrades could ultimately be worth over £270m per year. This includes over £70 million for vulnerable customers, which works out at a saving on average of around £70 per customer per year.
- 4.50 While we welcome this progress that providers have made, we consider there is room for providers to do more to protect their out-of-contract vulnerable customers, including through:
- a) Improved identification: While recording of customers identified as vulnerable has increased recently, providers still need to do more in this area to ensure that vulnerable customers get support when they need it. Our 'Treating vulnerable consumers fairly' guide includes practical advice on how providers can do this.
 - b) Further support for long-term out-of-contract vulnerable customers: where providers' commitments do not meet our principles of effective support – either because the automatic price reductions do not go below the best available out-of-contract prices, or because the same level of support is not provided regularly in future to protect newly vulnerable customers – we encourage them to consider further improvements.
 - c) Continuing to innovate to support vulnerable customers who have not engaged for some time: this should include consideration of the needs of older customers.
 - d) Providing additional help for those who are struggling to pay their bills: Given current circumstances, we have written to major providers calling on them to be proactive in engaging with customers who are struggling to pay and to offer customers early financial support that is in their best interests. We have said that this includes offering customers a cheaper tariff, for example, where they are in debt and on a high out-of-contract tariff.
- 4.51 In section 5 we set out our next steps, including our plans to monitor changes in outcomes for broadband customers, as well as our upcoming work on affordability.

5. Next steps and review of affordability

- 5.1 In this section we set out our plan for monitoring customer outcomes in retail broadband and the effectiveness of ECNs and ABTNs, as well as the next steps for our forthcoming review of affordability of broadband and other communications services.

Monitoring customer outcomes in broadband

Monitoring helps us to understand the impact of our interventions and helps us to hold providers to account

- 5.2 As noted in this report, the introduction in February 2020 of rules requiring providers to send ECNs and ABTNs are likely to go a significant way to addressing customer confusion about whether they are in or out-of-contract and about the savings and benefits that are available to them.
- 5.3 Providers' commitments to help their vulnerable customers get a better deal, and the other pricing changes they have made, should further help to address the impact of price differentials we have identified for out-of-contract vulnerable customers.
- 5.4 Monitoring customer outcomes is therefore a valuable tool with two purposes. Firstly, it means that we, and our stakeholders, can understand the effectiveness and impact of interventions. This is consistent with the CMA's statement in its January 2020 update on the loyalty penalty that monitoring the impact of the providers' commitments is 'of vital importance'.¹¹⁶
- 5.5 Secondly, publishing the results of our monitoring can also act as a powerful reputational incentive for providers to treat their customers fairly. It can help hold providers to account and highlight where we think they have made positive steps towards helping their customers get better deals, and/or where we think they could do more.
- 5.6 For example, should we observe that the proportion of a given provider's customers (particularly those who are vulnerable) who are out-of-contract has altered significantly, we may seek to highlight this. Similarly, if we were to observe a significant change in a provider's price differentials, we may also choose to highlight this publicly.
- 5.7 We intend to use data from a variety of sources to underpin our monitoring. This is likely to include data collected from providers about the actual prices paid by customers and customer characteristics (such as indicators of vulnerability).¹¹⁷ The data (a summary of which is set out in section 3 of this report) will act as the baseline against which changes over time will be measured.

¹¹⁶ CMA, January 2020, [Loyalty penalty update](#), pp. 4-5

¹¹⁷ We note that advertised promoted and list prices do not necessarily give a good indication of what currently out-of-contract customers are paying for their broadband (because the prices currently being advertised will not actually be paid by customers until their minimum contract period ends – this period usually lasts for at least 12 months).

- 5.8 Gathering such information will allow us to improve our understanding of outcomes for different customer groups, including those who are out-of-contract for long periods as well as those who are vulnerable (recognising that some customers could be both long-term out-of-contract and vulnerable). We expect to report on this at least annually.
- 5.9 We already publish information about prices which helps consumers to remain informed about the benefits of engaging to get a good deal. This work includes consumer campaigns such as Boost your Broadband and 'Are you in or out',¹¹⁸ as well as our annual pricing report.¹¹⁹
- 5.10 We also intend to continue to report regularly on advertised prices that providers use in their marketing using sources such as PurePricing. This information will help us and our stakeholders to understand and track pricing trends, as well as raise consumer awareness of the benefits of engaging.

We intend to monitor a number of metrics

- 5.11 We noted in section 3 that providers perform differently on different metrics. Therefore, we do not think it is appropriate to use a single metric to monitor the extent to which customers are getting a fair deal. Instead, we intend to report on a number of metrics which we believe will provide a holistic picture of customer outcomes across the main broadband providers.
- 5.12 We intend to report on the following metrics at least annually:
- The proportion of customers who are out-of-contract, as well as the proportion of customers with a vulnerability indicator who are out-of-contract;
 - How much more out-of-contract customers pay per month than the provider average;
 - How much more customers with a vulnerability indicator who are out-of-contract pay per month than the provider average; and
 - The proportion of customers who are recorded as potentially vulnerable by their provider.
- 5.13 We may also report on other metrics in addition to the above, if we think they would be of use in understanding broadband pricing and customer outcomes.
- 5.14 Figure 4 gives a snapshot of outcomes for broadband customers, by provider, based on provider data from September 2019. Figure 5 shows the proportion of broadband account holders who report being unsure of their contract status. Figure focuses on outcomes for vulnerable customers. We will continue to report on these metrics as part of our future monitoring.

¹¹⁸ See Ofcom, [Boost Your Broadband](#) and Ofcom, 17 February 2020, [Are you in or out of contract?](#)

¹¹⁹ See Ofcom, [Pricing trends for communications services](#).

Figure 4: Monitoring all customer outcomes

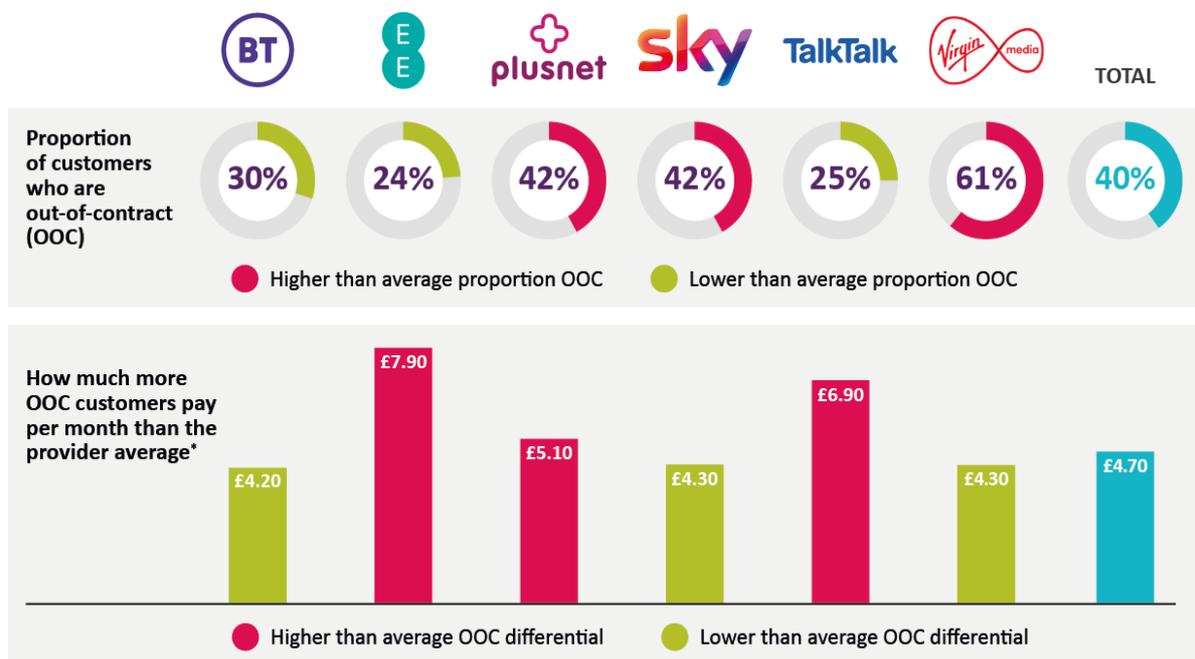
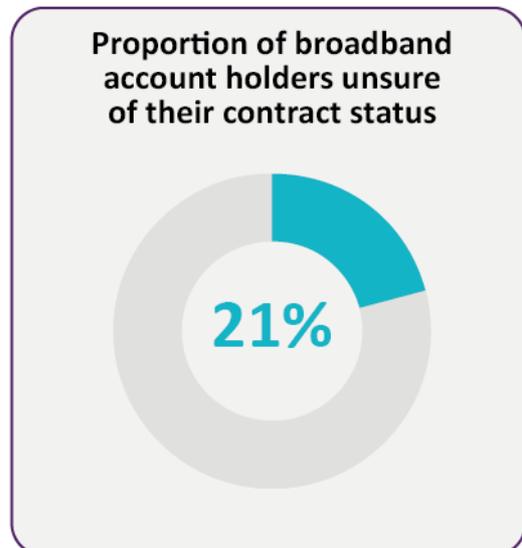


Figure 5: Monitoring awareness of contract status¹²⁰



21% is made up of 13% who report not knowing their contract status, and 8% who said they weren't sure, or didn't know if they'd ever had a contract

¹²⁰ The source for this data is Q6K, Ofcom's 2019 Switching Tracker.

Figure 6: Monitoring vulnerable customer outcomes¹²¹



*The cross-hatched area shows the proportion (19%) of all out-of-contract customers with a vulnerability indicator. This is similar to the proportion (18%) of all customers, both in- and out-of-contract, with a vulnerability indicator

**To calculate this, individual OOC customers' prices are compared to the average price of a similar product of that provider.

We will also conduct in-depth work to understand the effectiveness of ECNs and ABTNs

- 5.15 In addition to the proposed monitoring of customer outcomes set out above, we are preparing work to understand the effectiveness of ECNs and ABTNs in helping customers make informed choices and sign up to new deals when it is in their best interest to do so.
- 5.16 In our statement on ECNs and ABTNs, we said that we would assess the impact of sending these notifications on providers' contracting practices, including any changes to their pricing.¹²² We also said we will monitor the impact of the notifications on customer awareness, engagement, satisfaction, spend and confidence in navigating the market, and we will test how outcomes may vary according to the characteristics of the notifications.
- 5.17 To inform these assessments, we plan to:
- Collect information from all major broadband (and mobile) providers covering periods before and then after the notifications start being sent. Both customer datasets will include the prices paid by customers across different contract types (new customers, re-contracted, out-of-contract) for relevant services.
 - Conduct surveys targeting customers who receive an ECN in a particular month during 2020. We aim to link survey responses to the customer level dataset above. Collecting data from customers will enable us to more accurately link customer behaviour to the notification and help us identify any differences between groups of customers.

¹²¹ Note that the data presented in Figure 4 relies on provider recording of vulnerability. However, as outlined in section 3, providers are only recording details for a subset of their vulnerable customers. We are therefore unable to establish the extent this 'sample' is representative (in terms of outcomes) of the wider group of vulnerable customers that our market research suggests exists. As such analysis of the provider data should be seen as indicative only.

¹²² Ofcom, 15 May 2019, [Helping consumers get better deals: Statement on end-of-contract notifications and annual best tariff information](#), pp. 87-88.

- 5.18 Once we have completed this analysis, we will assess how effective these measures have been. We anticipate a report on our initial findings in 2021.
- 5.19 We note that Covid-19 is likely to affect how customers respond to ECNs and ABTNs, due to factors including increased pressure on household finances and greater reliance on broadband. This is a particular challenge because, as noted above, we intend to compare customer data collected during 2019 to data collected in the same period in 2020. However, our view is that valuable lessons could still be drawn from an assessment, albeit recognising that the results will be affected by the impact of Covid-19.

Next steps

- 5.20 If our monitoring shows that the situation for out-of-contract customers, in particular for those that are vulnerable, has not improved we are prepared to take further action. The legal framework under which we operate currently restricts the circumstances in which we can impose price caps. If necessary, we are open to exploring with government the potential for additional powers to implement targeted pricing interventions to protect those in vulnerable circumstances.
- 5.21 As noted above this review forms part of our wider work on fairness for customers. We intend to publish a progress report in early 2021 on providers' progress against the fairness commitments. This report will draw on Ofcom data and self-reporting by providers, to highlight best practice in the sector as well as to show areas where improvement is needed.
- 5.22 We will also continue with related work under our fairness for customers programme, including:
- a) proposals to make cross-platform switching easier (for example, between Virgin Media and a provider using the Openreach network);
 - b) proposals to introduce a smart data initiative in the communications sector ('Open Communications'); and,
 - c) the introduction of contract summary information which will provide greater upfront transparency to customers about the prices they will pay when in contract and at the end of their minimum contract period.
- 5.23 All of these initiatives are intended to make it easier for people to find and take up the right deals for their communications needs.

Review of affordability

- 5.24 We have an established programme of work focusing on affordability. This includes regular monitoring of consumer affordability, such as through our 'Access and Inclusion' reports,¹²³

¹²³ See Ofcom, [Access and Inclusion](#) reports

as well as monitoring of prices, such as through our ‘Pricing trends for communications services’ reports.¹²⁴

- 5.25 The Covid-19 pandemic is causing significant changes in macroeconomic conditions,¹²⁵ and as set out in section 4, evidence suggests this is affecting the affordability of broadband services for customers. At the same time, a decent reliable broadband service has never been more important, as people have relied on it for work, education and other important tasks such as conducting medical appointments online.
- 5.26 While we have not identified a clear pattern of affordability problems being linked to customers’ contract status we are concerned that problems of arrears will be greater for customers who are paying high out-of-contract prices.

We are working with industry to help customers who struggle to pay their bills

- 5.27 To address debt problems in the short-term following the outbreak of Covid-19, we have been working with industry and government to provide support for customers who are struggling to pay.¹²⁶ As set out in section 4, the Government agreed an initial set of temporary voluntary commitments with providers in March 2020, including in relation to debt and disconnection, which ran to the end of June 2020. We welcome the quick response from providers to protect customers who are struggling to pay.
- 5.28 In June, we wrote to major providers asking them to offer additional support to customers who are struggling to pay, from 1 July to 30 September 2020. We said that communications providers should proactively engage with customers who are struggling to pay and offer support that is in their best interests, including offering a customer a cheaper tariff. As set out in section 4, through our broadband pricing work we encourage providers to consider going further where out-of-contract customers are arranging debt repayment plans but are unable to act on tariff advice at the same time, by offering *automatic* price reductions where necessary.
- 5.29 This work builds on our ‘Treating vulnerable customers fairly’ guide, which sets out longer-term practical measures that providers could adopt to help ensure they are treating vulnerable customers fairly and deliver good outcomes.¹²⁷ The guide encourages providers to: *“Offer tariff advice, whether that is switching to a cheaper tariff or social tariff. For example, customers who have experienced higher out of contract charges and have*

¹²⁴ See Ofcom, [Pricing trends for communications services](#)

¹²⁵ The Office for Budget Responsibility has forecast a 12.8 contraction in UK GDP for 2020, for example. See [OBR, Coronavirus analysis](#) (accessed 09.07.2020)

¹²⁶ See gov.uk, 29 March 2020, [Government agrees measures with telecoms companies to support vulnerable consumers through COVID-19](#)

¹²⁷ The guide is in addition to Ofcom rules, which require that providers must establish, publish and comply with clear and effective policies and procedures for the fair and appropriate treatment of consumers whose circumstances may make them vulnerable. See Ofcom, 23 July 2020, [Treating vulnerable consumers fairly: A guide for phone, broadband and pay-TV providers](#)

*recently fallen behind with payments could benefit from such engagement with their provider.”*¹²⁸

- 5.30 We will continue to work with industry and to monitor debt and disconnection in the communications sector closely as the current situation develops and review whether further appropriate steps could help customers in future.

We will publish a review of affordability later this year

- 5.31 As set out in our Plan of Work, we are intending to publish later this year a review of affordability.¹²⁹ This will set out our understanding of where households may have difficulty paying for communications services, in particular in relation to broadband. We expect to provide further analysis of affordability issues relating to broadband, drawing on a range of sources. These will include data showing evidence of the situation before the pandemic and also tracking developments since the lockdown (including through results from a new series of monthly affordability surveys, which we started in June 2020).
- 5.32 We will particularly consider specific groups of customers where evidence suggests that they face pronounced affordability problems. We also continue to work with government and other regulators to understand issues across sectors and will seek to draw from best practice where appropriate.
- 5.33 Initial findings from the first month of Ofcom’s Covid-19 affordability tracker show¹³⁰ that nearly all broadband decision makers consider their broadband service important to their household while some have had affordability issues in paying for broadband (between March and May), since the Covid-19 lockdown began. For example:
- 95% of broadband households said broadband was important at the moment, this was higher in importance than any other communications service.
 - 6% of broadband households have had some form of affordability issue with their broadband service in the last 3 months. This includes any of: having cancelled due to cost, made a change to the service to afford it,¹³¹ missed a payment or changed the way they pay¹³² for their broadband service.¹³³
 - Across communications services, affordability problems are more common for younger consumers (aged 18-34).

¹²⁸ Ofcom, 23 July 2020, [Treating vulnerable consumers fairly: A guide for phone, broadband and pay-TV providers](#), p. 23

¹²⁹ See Ofcom, 30 April 2020, [Statement: Ofcom’s Plan of Work 2020/21](#)

¹³⁰ [Ofcom Covid-19 Affordability tracker research](#), first wave (June 2020). The research focuses on affordability issues that consumers in the communications market may have faced and asks about any actions they have taken during the 3 months prior to interview (March-May) to afford communications services. Due to differences in the methodology and question structure this data is not comparable to previous Ofcom affordability tracking research.

¹³¹ For example, changes to a tariff or package

¹³² For example, used their savings, used a credit card, agreed a payment break/deferral, used an overdraft, took out a loan/borrowed money or entered into a repayment plan agreement.

¹³³ Analysis is based on UK 18+ adults who are either the sole or joint decision-maker for services and/or those who personally owned a mobile phone. Respondents making more than one affordability-related change to their fixed broadband service were only counted once in this analysis.

5.34 We are continuing to conduct further waves of this research, which will allow us to monitor and better understand how affordability issues are evolving.

Additional support for financially vulnerable customers

5.35 As above, we will continue to review affordability of broadband services in detail, as well as the support offered to customers by providers. Dual-play social tariffs are already provided by BT and KCOM on a voluntary basis in their capacity as Universal Service Providers. These tariffs are designed to support consumers on low household incomes. Since March, they have made the following changes to their social tariffs:

- a) **BT** has lifted the monthly data allowance – which was previously set at 15GB – for its BT Basic + Broadband product. This allows customers on the tariff unlimited use of broadband each month.¹³⁴
- b) **KCOM** has lifted the monthly data allowance for its Flex Packages. It has also expanded eligibility to more customers, including individuals on the Government’s Covid-19 shielded patients list, until such time as they no longer need to practice social shielding.¹³⁵

5.36 As we call on broadband providers to respond to emerging debt problems for those paying high out-of-contract prices, we encourage them to consider options which could include new products such as cheaper tariff basic packages or voluntary social tariffs. We have observed some good practice in this area in recent months.

5.37 In relation to further measures to ensure affordability, such as a formal social tariff, we are engaging with the Government following the publication of its response to its consultation on implementing the European Electronic Communication Code.¹³⁶

5.38 Since our last report, we have been conducting new research to understand affordability in detail, which is necessary to allow us to assess whether further support for customers with low incomes or other special social needs is necessary. We will publish this research with our affordability update later this year and will continue to engage with the Government as appropriate.

¹³⁴ BT Basic + Broadband is charged at £10.07 a month. See BTPLC.com, [What do you get with BT Basic + Broadband?](#) (accessed 15.07.2020)

¹³⁵ KCOM’s ADSL Flex packages cost either £10.50 or £11.50 per month. See kcomhome.com, [Flex Packages](#) (accessed 15.07.2020)

¹³⁶ Department for Digital, Culture, Media and Sport (DCMS), 22 July 2020, [Government response to the public consultation on implementing the European Electronic Communications Code](#)

A1. Application of the Fairness Framework

- A1.1 As part of our fairness for customers programme, we published a Fairness Framework in January 2020. The Framework is intended to help providers by providing further insight into how Ofcom is likely to assess whether customers are being treated fairly, including the concerns that are more likely to lead us to intervene.
- A1.2 The Fairness Framework sets out five high-level questions that should be considered in the round to think about whether provider behaviour or market outcomes raise fairness concerns.
- A1.3 In the table below, we have applied the questions set out in our Fairness Framework to illustrate how the pricing practices in fixed broadband fit within that framework. Below, we set out a short summary of these issues based on the findings presented as part of our review.

Table 10: Application of the Fairness Framework to our review of broadband pricing

Questions	We are more likely to be concerned where...	Findings
How do providers treat customers throughout the customer journey?	Information is not clear, easy to understand and timely	<ul style="list-style-type: none"> Information is usually provided by providers (for example, on broadband speeds, usage limits, bundled services and new and out-of-contract prices) but our research indicates that some customers find the broadband market confusing or difficult to navigate. Ofcom’s guide on choosing a broadband service was well-received by customers in our research. End-of-contract and annual best tariff notifications should help provide clearer information and we will be evaluating their impact.
	Behavioural biases and/or other barriers to engagement are exploited in ways that adversely affect customers	<ul style="list-style-type: none"> Our consumer research indicated that behavioural biases are present for some customers and can be more pronounced among vulnerable customers, potentially contributing to them remaining on high out-of-contract prices or being less inclined to switch provider. Identified behavioural biases include loss/regret aversion and status quo bias. Furthermore, stresses and challenges associated with low income or ill health can result in reduced capacity to make good longer-term decisions.

		<ul style="list-style-type: none"> A number of customers remain out-of-contract for a long time, despite the high-cost to them from doing so (i.e. taking account of the significant savings available from re-contracting with their existing provider or from switching provider).
	Customers are not supported in making well-informed decisions	<ul style="list-style-type: none"> End-of-contract and annual best tariff notifications will help to reduce confusion about contract status and the benefits of re-contracting. The voluntary commitments for vulnerable customers will provide additional support for these customers to get deals that are best suited to their needs. However, there is still more providers could do to identify their vulnerable customers.
	Problems are not fixed promptly	<ul style="list-style-type: none"> This is outside the scope of this review.
	Accessing complaints processes and independent dispute resolution services is difficult	<ul style="list-style-type: none"> This is outside the scope of this review.
Who is being harmed, if anyone?	Vulnerable customers are being harmed	<ul style="list-style-type: none"> According to the data from providers, out of the 8.7m out-of-contract customers, 1.6m are vulnerable customers (42% of all vulnerable customers, compared to 40% for all customers). On average, vulnerable customers across contract status types, pay broadly similar prices to all customers. There is a relatively small price effect for customers aged 65+, ranging from -£0.76 to £1.76 more per month. 44% of out-of-contract vulnerable customers have been out-of-contract for two or more years, compared to 37% for all customers. Our research found that certain vulnerable customers may be less likely to respond to end-of-contract and annual best tariff notifications.
	The practice has no offsetting benefits, such as market	<ul style="list-style-type: none"> The practice of providing introductory discounts can benefit customers, for example incentivising them to switch or take-up services (especially faster

	expansion through low price offers	connections only available on new technology).
What is the extent of the harm, if any?	The harm to each affected customer is significant	<ul style="list-style-type: none"> • The per person monthly differential for out-of-contract customers is around £4.70 more than the provider average price for their service. For vulnerable customers this differential is £3.90 more. The averages mask significant variation for certain customers and among providers. • However, when looking at how much more out-of-contract vulnerable customers typically pay per month than new customers, this is slightly higher than for all customers (£14 compared to £13).
	Many customers are affected	<ul style="list-style-type: none"> • Around 8.7m are out-of-contract. • End-of-contract and annual best tariff notifications are expected to go some way to reducing the number of customers who are out-of-contract in future and we will be monitoring the impact of this measure.
	The practice has persisted and is expected to persist for a long time	<ul style="list-style-type: none"> • The time series of list and discounted prices shows that price differentials in broadband have been a market feature for many years. • Those customers out-of-contract will remain so if they do not access, assess or act on the information available. In 2019 (before the implementation of ECNs/ABTNs) 3m customers were out-of-contract for more than 2 years.
How important is the service?	The service is seen by customers as highly important or essential, rather than 'nice-to-have';	<ul style="list-style-type: none"> • Broadband is increasingly seen as essential by consumers to the way they live and work. This has been highlighted in the response to Covid-19. • 80% of UK households have a fixed broadband connection and usage grows year-on-year.
Does the service depend on risky new investment?	The service is a legacy service with predictable demand and costs (i.e. limited risk) and/or little need for new investment	<ul style="list-style-type: none"> • While standard broadband is a legacy service, superfast and ultrafast broadband – especially delivered over full-fibre – require (or recently required) risky investment. • Therefore, any interventions would need to be targeted so to avoid unintended consequences for take-up of (or incentives to invest in) fibre networks.

A2. Data analysis since the initial report and valuing the provider pricing policies

A2.1 In this annex we set out:

- a) updates to the data analysis since the September 2019 report (the 'initial report'), and explain any significant new findings;
- b) the methodology for valuing the provider pricing policies, including those targeted at vulnerable customers.

Data analysis since the initial report

Overview

- A2.2 As in preparation for the initial report, we collected customer level data from the largest providers of fixed broadband (BT, EE, Plusnet, Sky, TalkTalk and Virgin Media) in order to determine whether some groups of customers pay different prices for similar services depending on their contract status (new customer, re-contracted, or out-of-contract), as well as to establish whether vulnerable customers are paying higher prices.
- A2.3 Using customer level data allows us to compare prices for *similar services*, which is important because calculating and comparing simple averages may lead to erroneous conclusions due to potential product-mix effects. Our approach is therefore to compare prices for products with similar characteristics such as speed, tariff (by which we mean whether broadband is purchased standalone, with fixed voice (dual-play) or also with pay-TV (triple-play),¹³⁷ and data allowance.
- A2.4 Our approach to the analysis follows closely the approach used in our initial report and is described in detail in Annex A4 to that report.¹³⁸ For brevity we do not repeat every point in detail, and instead describe the main findings or the main differences in the underlying data compared to the initial report.

Data collection

- A2.5 For the purposes of this report we collected billing data for September 2019 from BT, EE, Plusnet, Sky, TalkTalk and Virgin Media. Overall, the data was provided in a format that allows us to make comparisons with the November 2018 dataset used for the initial report, with the following exceptions and caveats:

¹³⁷ Quad play tariffs were excluded due to the small numbers of customers who purchase their broadband services in this way. As we explain below, with more services in the bundle price comparisons for just one element (in this case broadband) also become more complicated.

¹³⁸ See Ofcom, 25 September 2019, [Helping consumers get better deals: A review of pricing practices in fixed broadband](#), Annex A4.

- a) Virgin Media, as in the November 2018 dataset, could not separate broadband payments from bill elements related to calls and TV services for dual-play and triple-play customers. However, Virgin Media provided more details about the packages its customers purchased that improved like-for-like comparison for customers with different contract status types. For other providers comparisons are made for a given combination of speed band¹³⁹, tariff (standalone broadband, dual play, triple play) and data allowance (unlimited or capped). For Virgin Media we compare customers on the same combination of speed band, tariff, data allowance, broadband product name, and call and TV package where relevant for dual-play and triple-play customers.
- b) Another observation regarding the Virgin Media data is that while we obtained a richer dataset this time, the names of broadband products in the September 2019 dataset do not correspond to the column “product name” in the November 2018 dataset. In our analysis of the November 2018 dataset for Virgin Media we made comparisons between customers having the same combination of tariff, speed band, data allowance and product name (we did not have data on call or TV package names at the time), which is different to the approach taken now. For Virgin Media, price differentials calculated in this report are not directly comparable to the ones reported in the initial report.
- c) TalkTalk informed us that some customers on legacy products had call packages included but that calls included in the package were not charged separately and therefore the broadband portion of the bill could not be separated. For such customers we used the price differences in other products that were sold with and without calls and deducted those from the prices of the legacy products to approximate the broadband part of the bill.¹⁴⁰
- d) TalkTalk provided data on regular discounts customers received and told us that in their billing data these discounts are not generally attributed to a particular element of the package (i.e. broadband, calls or TV) but were applied to the bill “in general”. We used an approximation where we attributed a proportion of the discount to the broadband service and that proportion was calculated as the proportion of the regular broadband payment in the regular total bill.¹⁴¹ We could not confirm with TalkTalk whether this was the methodology it had applied to the November 2018 data to calculate the “monthly broadband charge”, and there is a possibility that for TalkTalk the results based on September 2019 data are not directly comparable with results based on November 2018 data.

A2.6 As with the November 2018 dataset, we had to drop some observations where relevant data was missing (e.g. contract dates, billed amounts etc.) or where product segments had

¹³⁹ We use the following speed bands: below 30Mbit/s, 30-55Mbit/s, 56-100Mbit/s, 101-200Mbit/s, above 200Mbit/s.

¹⁴⁰ As an illustration, if TalkTalk currently sells “Any time” calls boost for £x per month, we deducted £x from prices of legacy products that included “Any time” calls.

¹⁴¹ As an illustration, if a customer receives a £10 discount and pays £20 per month for broadband and £20 per month for calls, then the “broadband part” of the discount is calculated as $10 \times 20 / (20 + 20) = 5$.

too few customers in them to enable a robust comparison of prices. Overall, fewer than 2% of customer bills had to be removed. The final September 2019 dataset on which we performed our analysis of price differentials and contract status has 21,528,982 customer records.¹⁴²

Calculation of price differentials

- A2.7 We used the information on dates of the last/current contract, minimum contract duration and previous contract (contract preceding the current contract, if there was one) in order to classify all customers into one of three groups (which we call contract status):
- a) Out-of-of contract customers (or OOC) are customers whose latest contract ended (i.e. minimum contract term has expired).
 - b) Customers in their first contract with the provider and whose minimum contract duration had not finished – we call this group “new customers” (or NC).
 - c) Customers still in-contract with their provider (the minimum contract duration has not finished), but for whom the latest contract was not their first contract with the provider – we call this group “re-contracted” (or RC).
- A2.8 Depending on the types of prices we compare, there are several differentials that we can calculate. First, we compare prices of customers with different contract statuses. For each OOC customer we can calculate two measures:¹⁴³
- a) OOC-NC price differential – the difference between their individual OOC price and the average NC price of a comparable product (same combination of tariff, speed band and data allowance);
 - b) OOC-RC price differential – the difference between their individual OOC price and the average RC price of a comparable product.
- A2.9 For each re-contracted customer we calculate the RC-NC price differential, or the difference between their individual re-contracted price and average new customer price of a comparable product.
- A2.10 For Virgin Media the methodology was slightly different (as noted above) and we calculated individual price differentials at the “combinations of products” level (i.e. comparator prices were calculated for the same combination of broadband, calls and TV

¹⁴² For comparison, in our November 2018 dataset which we analysed for the initial report we had 21,646,213 customers.

¹⁴³ Which measure is more appropriate to focus on depends on the relevant question. If we are interested in what price an out-of-contract customer could pay if they re-contracted with the same provider (and assuming no waterbed effect for simplicity), it would be appropriate to compare out-of-contract and re-contract prices, since many providers do not offer new customer prices to re-contracted customers. If we are interested in comparing deals to new customers (new customer prices) and prices paid by out-of-contract customers, we would look at OOC-NC differentials.

products, tariff, speed band and data allowance) in order to compare like-for-like to the extent possible.¹⁴⁴

A2.11 We can then aggregate individual OOC-NC, OOC-RC and RC-NC differentials by summing them up across all OOC customers (or all RC customers for the RC-NC differential) and arrive at an aggregate annual measure by multiplying the result by 12, as the underlying data is monthly. These aggregate measures are shown in Table 11 below.

Table 11: Annual aggregate price differentials by provider (all tariffs, speed bands and data allowances)

	Aggregate price diff. OOO-NC, 12 months, £mn	Aggregate price diff. OOO-RC, 12 months, £mn	Aggregate price diff. RC- NC, 12 months, £mn
Total	1,356	1,009	468
Total (Nov 2018)	1,107	914	366

Source: Ofcom analysis of provider data.

A2.12 We can also calculate average individual OOC-NC, OOC-RC and RC-NC differentials across all out-of-contract customers (or all re-contracted customers for the RC-NC differential) and arrive at an average differential per person per month, as well as express these in percentage terms of the comparator price. These average measures are shown in

A2.13 Table 12 below.¹⁴⁵

Table 12: Average monthly price differentials per customer¹⁴⁶

	Average individual price diff. OOO-NC		Average individual price diff. OOO-RC	
	£/month	As % of average NC spend ¹⁴⁷	£/month	As % of average RC spend ¹⁴⁸
BT	£13.66	-	£5.06	-
EE	£11.24	-	£11.16	-
Plusnet	£10.18	-	£7.42	-
Sky	£8.99	-	£7.38	-
TalkTalk	£11.16	-	£9.64	-

¹⁴⁴ Some product segments had too few customers in them to identify a comparator price reliably. If a product segment identified as a combination of tariff, speed band, data allowance, broadband product, call and TV package (where relevant) had fewer than 100 customers of a given contract status (NC or RC), we used as a comparator price the average price of the relevant combination of contract status, tariff, speed band, data allowance, broadband product.

¹⁴⁵ The average individual RC-NC price differential is £4.42 (compared to £3.65 in November 2018) which represents 15% of average NC spend (compared to 12% in November 2018).

¹⁴⁶ These are not differences between average prices by provider but rather averages of individual price differentials calculated according to our methodology explained above.

¹⁴⁷ We do not report provider-specific data in all cases because of the risk that this could result in the disclosure of confidential information.

¹⁴⁸ As above, we do not report provider-specific data in all cases because of the risk that this could result in the disclosure of confidential information.

Virgin Media ¹⁴⁹	£16.89	-	£14.38	-
Total	£13.04	45%	£9.70	27%
Total (Nov 2018)	£10.45	35%	£8.62	22%

Source: Ofcom analysis of provider data

- A2.14 In addition to the measures listed above, we also calculate differentials between customers' individual prices and *the average price* for a similar product (i.e. a combination of speed band, tariff and data allowance) but across *all* contract status types for a given provider. For example, for a customer on dual-play tariff, unlimited data, 18Mbit/s product we would compare that customer's price with an average price of their provider for all customers on a dual-play tariff, unlimited data and product of the same speed band (i.e. below 30Mbit/s). Similar to the previous measures we used a modified approach for Virgin Media for which the comparator prices were calculated for the same combination of tariff, speed band and data allowance as well as specific elements of the package, i.e. broadband product name, calls and TV package where relevant.
- A2.15 Such individual differentials where the comparator is the average price across all contract status types can then be aggregated across, for example, all out-of-contract customers of the relevant provider. By multiplying the result by 12 turned we obtain an aggregate annual measure that would show how much per year out-of-contract customers pay compared to the average price of a similar product. These aggregate measures are shown in Table 13 below.
- A2.16 As can be seen, the aggregate differential for out-of-contract customers compared to average prices is £485m in 2019 (slightly less than in 2018). Although not reported in the table below, the out-of-contract to average differential for customers that providers have flagged as 65+, financially vulnerable or having a vulnerability flag is £76m in aggregate. Note also that by definition the sum of aggregate differentials across all contract status types of a given provider is equal to zero.

Table 13: Annual aggregate price differentials by provider – comparison with average prices (all tariffs, speed bands and data allowances)

	Aggregate price diff. OOC-average price, 12 months, £mn	Aggregate price diff. NC-average price, 12 months, £mn	Aggregate price diff. RC- average price, 12 months, £mn
Total	485	-273	-211
Total (Nov 2018)¹⁵⁰	500	-277	-223

Source: Ofcom analysis of provider data. Some figures do not sum up to zero due to rounding.

¹⁴⁹ Virgin Media prices include billable calls for dual and triple play customers and TV packages for triple play customers. As set out in this Annex, we use a different approach to calculating differentials for Virgin Media than for other providers. For Virgin Media, price differentials are calculated for a comparable combination of tariff, broadband, call and TV package (where relevant) and data allowance. In addition, Virgin Media's price differentials calculated in this report are not directly comparable to the ones reported in the initial report.

¹⁵⁰ We did not calculate these measures in our initial report, but show here for comparison.

A2.17 Similarly, we can calculate an average “OOC-average price” differential per person per month that would show how much on average an out-of-contract customer pays above the average price for a similar product, and similar measures for new and re-contracted customers (see Table 14 below).

Table 14: Average monthly price differentials per OOC customer – comparison with average prices

Provider	Average price diff. OOC-average price	
	£/month	As % of av. spend ¹⁵¹
BT	£4.21	-
EE	£7.89	-
Plusnet	£5.11	-
Sky	£4.34	-
TalkTalk	£6.95	-
Virgin Media¹⁵²	£4.32	-
Total	£4.66	12%
Total (Nov 2018)¹⁵³	£4.71	12%

Source: Ofcom analysis of provider data.

A2.18 In our initial report we showed a range of estimates for a number of price differential measures (for example, Tables 3 and 4 of Annex A4). The lower value of that range presented a scenario for Virgin Media in which we applied the average dual-play price differentials to triple play customers in the same product segment, to attempt to exclude the TV component from prices. The upper value for the differential came from using triple-play differentials for triple-play customers. In both scenarios dual- and triple-play numbers included call charges.

A2.19 As explained above, the September 2019 data received from Virgin Media has more product details and this allows for a better like-for-like comparison. Also, using an average differential for dual-play customers and applying it to triple-play customers produces counter-intuitive results in some product segments, and in some cases results of the two scenarios described above change places with the upper estimate arising when using the dual-play differential for triple-play customers. For these reasons, in this report we only show one estimate of price differentials for Virgin Media (and therefore for all providers together). This means that for Virgin Media the differentials still include call and TV elements, for triple-play customers.

¹⁵¹ We do not report provider-specific data in all cases because of the risk that this could result in the disclosure of confidential information.

¹⁵² Virgin Media prices include billable calls for dual and triple play customers and TV packages for triple play customers. As set out in this Annex, we use a different approach to calculating differentials for Virgin Media than for other providers. For Virgin Media, price differentials are calculated for a comparable combination of tariff, broadband, call and TV package (where relevant) and data allowance. In addition, Virgin Media’s price differentials calculated in this report are not directly comparable to the ones reported in the initial report.

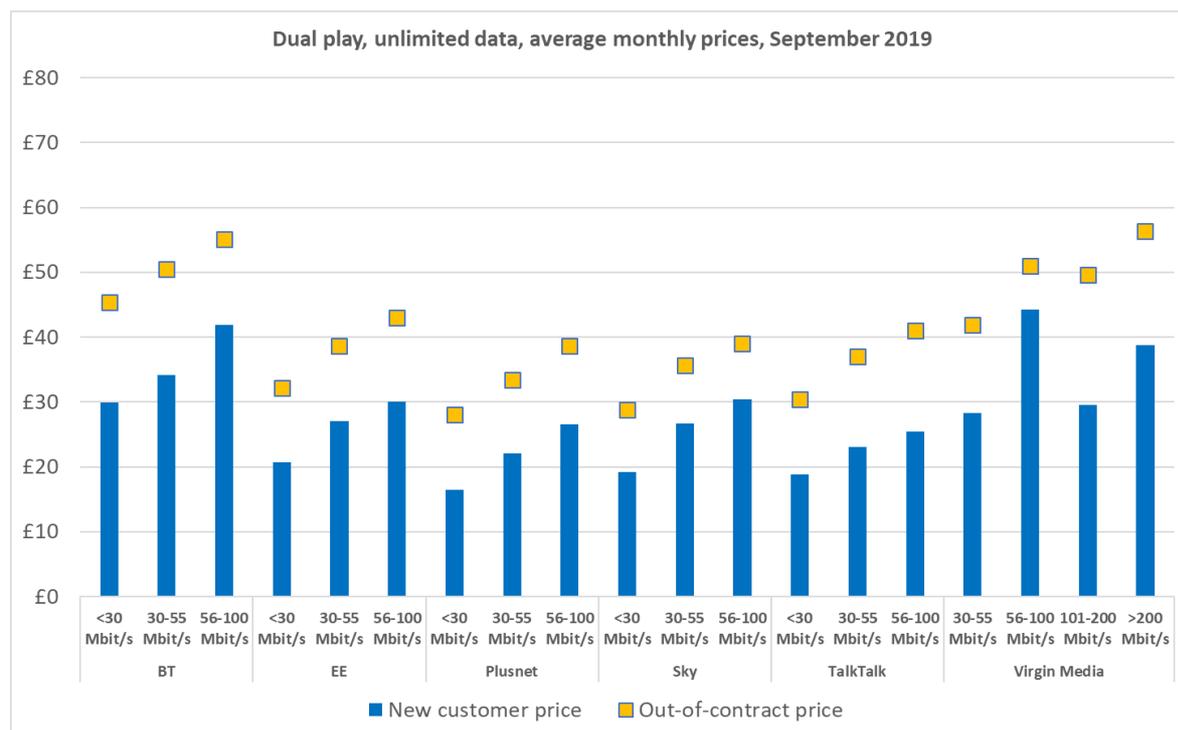
¹⁵³ We did not calculate these measures in our initial report, but show here for comparison.

Price levels

Provider data

A2.20 We also present average prices paid by customers for unlimited dual-play packages, by contract status and speed (see Figure 4 below).

Figure 4: Average prices by provider and contract status, dual-play, unlimited data¹⁵⁴



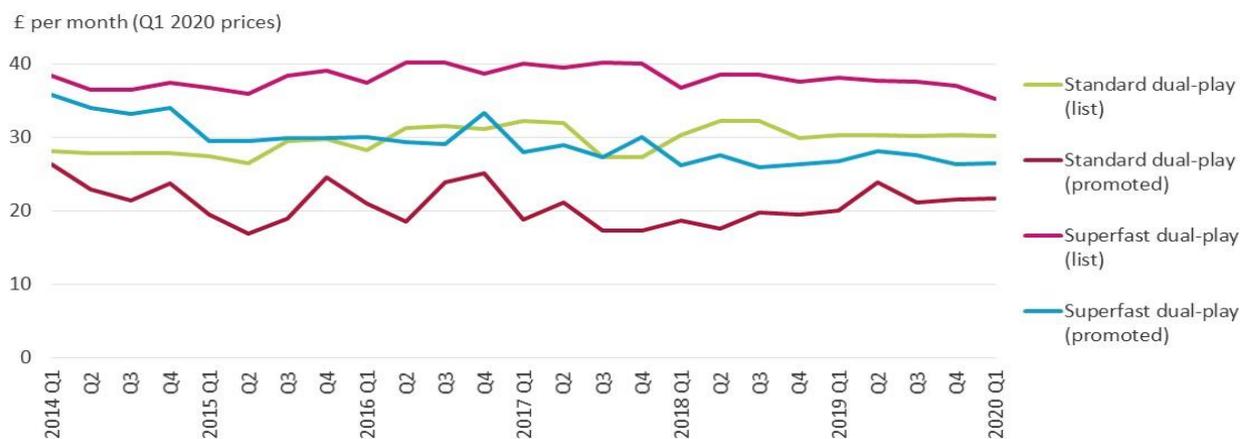
Source: Ofcom analysis of provider data

Advertised price levels

A2.21 As shown in Figure 5 below, data comparing advertised prices for new customers (the promoted price) and the price they will pay at the end of their minimum contract period (the list price) shows a narrowing of the gap between 2018, when we began looking at broadband pricing, and Q1 2020. In particular, comparing these periods, it can be seen that the standard dual-play differential has fallen by £3.76 per month (£12.26 to £8.51); and superfast dual-play differential has fallen by £2.59 per month (£11.38 to £8.79).

¹⁵⁴ Please note that Virgin Media prices include billable calls.

Figure 5: Average advertised monthly list and promoted prices for dual-play standard and superfast broadband, Q1 2014 to Q1 2020¹⁵⁵



Source: Ofcom / Pure Pricing UK Broadband Updates.

Notes: Represents average of the cheapest available tariff of BT, Plusnet, Virgin Media, TalkTalk, Sky and EE at the end of each quarter; promotions include the promoted price and any 'gifts' offered; adjusted for CPI

Econometric analysis of prices

- A2.22 Similar to our initial report, we investigated whether certain categories of customers (e.g. older customers, customers with an accessibility need, or customers living in areas with higher levels of deprivation) pay higher or lower prices for similar products within the same contract status.
- A2.23 We ran a series of customer-level provider-specific regressions¹⁵⁶ of prices for a given contract status (i.e. separate regressions were run for OOC prices, NC prices and RC prices) on a number of dummy variables to control for speed band, tariff and data allowance.¹⁵⁷ We also included a dummy variable for the customer category in question (for example, age 65+, having a vulnerability indicator, or living in a postcode belonging to an area of higher deprivation).
- A2.24 The estimate of the coefficient on the customer category dummy variables can be interpreted as the weighted average difference in the relevant prices across all products after any differences that can be attributed to speed, tariff or data allowance have been removed.
- A2.25 Mirroring our approach to calculating price differentials for Virgin Media, in our price regressions for Virgin Media we also included dummy variables for each broadband, call

¹⁵⁵ Promoted prices are the prices available to new customers during their initial fixed commitment period (i.e. a discounted price). The list price is the price a customer pays when they come out of their fixed commitment period and do not re-contract (i.e. an out-of-contract price).

¹⁵⁶ For Virgin Media we ran separate regressions for standalone broadband, dual-play, and triple-play due to inclusion of calls and/or TV in the price data of the latter two tariff types.

¹⁵⁷ Dummy variables are explanatory variables included in a regression that take value of 1 if a customer in question has the relevant characteristic (e.g. is aged 65+, or has a product in a specific speed band) and 0 otherwise.

and TV package (where relevant) to make the comparison of prices as much like-for-like as possible.

A2.26 The results of the econometric analysis are reported in Table 15 and Table 16 below, and the relevant parts of Section 3.

Table 15: Average differences in prices between groups of vulnerable customers and other customers

Indicator of potential vulnerability		Average differences between prices for customers with the relevant vulnerability indicator and customers without such indicator, £		
		OOO price	NC price	RC price
Overall range	Any (excl. age and financial)	-£0.75 to £0.69	-£0.31 to £1.38	-£0.75 to £0.92
Overall range (Nov 2018)	Any (excl. age and financial)	-£0.23 to £5.99	-£0.69 to £4.39	-£0.19 to £5.61

Note: only coefficients significant at the 5% level are shown. Overall range shows coefficients for any vulnerability excluding age and economic factors to make coefficients comparable across providers as not all providers submitted data on age and financial vulnerability. Overall ranges of coefficients are not directly comparable with November 2018 results.

Table 16: Average differences in prices in most deprived areas compared to the rest of the UK

	Average difference in prices in the top 10% deprived areas compared to the rest of UK, £		
	OOO price	NC price	RC price
Overall range of coefficients	-£0.82 to £0.61	-£0.80 to £1.08	-£0.86 to £1.51
Overall range of coefficients (Nov 2018)	-£2.60 to £0.80	-£0.50 to £1.20	-£2.40 to £1.70

Note: Only coefficients significant at the 5% level are shown. N/a means coefficient is not significant at 5% level. Overall ranges of coefficients are not directly comparable with November 2018 results.

Methodology for valuing the provider pricing changes and protections for vulnerable customers

Overview

A2.27 In the remainder of this annex we provide an overview of the methodology and key assumptions to quantify the impact of each provider's pricing policies and changes.

- A2.28 Aggregating customer benefits is difficult due to the differing timing of when they would take effect. Some will have an immediate impact that grows over time and some have an impact that could take a number of years to bed in.
- A2.29 The analysis below is not a forecast of future benefits, rather, we use the September 2019 dataset to estimate what the impact would have been on the beneficiaries if the policies or changes were in full effect at that point in time. A further simplifying assumption we have made is not to model behavioural change by customers or any further pricing responses from providers. As such, our calculation represents an estimate of the annual benefits in a steady state as if the out-of-contract customer base and provider pricing were otherwise as they were in 2019.
- A2.30 A related caveat is that we do not take into account the impact of ECNs or ABTNs because we have used data from September 2019 which predates when these remedies became effective. If ECNs and ABTNs act as we expect – by reducing the out-of-contract customer base – then any estimate of the benefits from the provider pricing policies would be reduced. As a result, any comparison against the impact of price differentials observed in 2019 would no longer be on a like-for-like basis.

Methodology for valuing each pricing policy or change

- A2.31 For each pricing policy or change, we first estimated the number of out-of-contract customers who could benefit over time. We did this using the customer level dataset, isolating the relevant customers, or using an estimate given to us by providers. For most policies, we used the prices paid and the services received in the dataset as the counterfactual. We then applied a saving or other benefit to each customer using:
- an individual level using the customer level dataset (where possible); or
 - an average benefit estimated using other sources
- A2.32 We set this out for each proposal in more detail below.

Estimating the impact of the vulnerable customer commitments

- A2.33 Each of the six largest providers has committed to a policy to provide better deals for those they record as vulnerable and out-of-contract. There is variation in the proportion of their respective customer bases benefiting and in the average saving per customer. For example:
- each provider defines “vulnerable” in a different way. These different definitions are shown in Table 17;
 - some providers are automatically moving their vulnerable customers to the new customer price for their product, others are moving them to the best available to that customer as set out in annual pricing notifications;
 - the other difference in approach is that Virgin Media applies a further criterion (of being ‘inactive’ for three or more years), to determine eligibility for the policy.
- A2.34 Both BT and Virgin Media provided explicit estimates of the number of customers that would benefit from the vulnerable customer commitments. For other providers we

inferred the number of beneficiaries from the description of the vulnerable customer commitment and our understanding of the number that would be eligible based on the vulnerability recording in the provider data submitted to us. For the providers that provided their own estimates of the numbers affected:

- a) BT’s estimate of the number of customers benefitting was 7% less than our own estimate. On the grounds of taking a conservative approach to the valuation of benefits, we used BT’s figure.
- b) Virgin Media also provided an estimate of the number of customers benefitting which was smaller than our own. Again to be conservative, and because Virgin Media’s definition of “inactive” does not allow us to isolate Virgin Media’s customers in the dataset with precision, we used Virgin Media’s estimate.

A2.35 We estimate that these vulnerable customer commitments across all providers will benefit just over 0.1m customers.

A2.36 Table 17 sets out the methodology for each provider.

Table 17: Valuing the provider commitments specifically for out-of-contract vulnerable customers: key assumptions and methodology

Provider	Customers benefitting	What is meant by “provider defined vulnerable”	Saving or benefit per customer relative to counterfactual
BT	We use the estimate explicitly provided by BT. This nearly matches the provider defined out-of-contract vulnerable customers in the dataset who pay more than £8 above the new customer price for their product.	Customers who have disclosed a vulnerability to BT. This therefore excludes those aged 65+ and those who are financially vulnerable, unless they are flagged with another vulnerability indicator. It also excludes those who benefit from BT’s reduction in the price of standard broadband.	We isolated the provider defined out-of-contract vulnerable customers in the dataset that pay more than £8 above the new customer price for their product. We used the difference between each affected customer’s current price and the new customer price.
EE	Provider defined out-of-contract vulnerable customers in the dataset paying more than the new customer price for their product.	Customers who have disclosed a vulnerability to EE. This therefore excludes those aged 65+ and those who are financially vulnerable, unless they are flagged with another vulnerability indicator.	The difference between each affected customer’s current price and the new customer price.

Plusnet	As above for EE	As above for EE	As above for EE
TalkTalk	Provider defined out-of-contract vulnerable customers paying more than the new customer price for their product.	As above for EE and Plusnet	The difference between each affected customer's price and the new customer price for their product.
Sky	Provider defined out-of-contract vulnerable customers in the dataset paying more than the best out-of-contract price for their product (currently this is £5 above the new customer price for their product, and we use this as the basis for our calculations).	Customers who have disclosed an accessibility need to Sky. This therefore excludes those recorded as financially vulnerable (with no other recorded accessibility needs). It also does not include those aged 65+ (unless they have recorded accessibility needs).	The difference between each affected customer's current price and the best available out-of-contract price (which is currently £5 above the new customer price). In this respect, our approach is likely to be conservative because it does not count the benefits to those who pay less than £5 above the new customer price, but respond to the annual review and move to a new customer price that is cheaper than they pay now.
Virgin Media	We use the estimate explicitly provided by Virgin Media.	Customers who have disclosed a vulnerability to Virgin Media, and those who are aged 65+ and have been "inactive" for 3 years (including any time within a minimum commitment period for either group). This excludes those who are financially vulnerable (unless they have disclosed a vulnerability to Virgin Media, or are aged 65+).	For the pricing change, we isolated the provider defined vulnerable customers who have been out-of-contract for more than 2 years, and paying more than the best out-of-contract price. The saving for each customer is estimated as the difference between each affected customer's current price and the new customer price plus Virgin Media's average OOC-NC differential. It was not possible to determine precisely what price Virgin Media would be moving customers to, as the "best out-of-contract price" is not well defined. In order to make the analysis tractable, we used the dataset to find

			the average OOC-NC differential for the product in question. This means assuming those paying below the average OOC-NC differential for their product make no saving, and those paying more have their price reduced to the average. This method is likely to yield a conservative estimate of the savings.
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A2.37 Five of the six providers will carry out an annual review with their vulnerable customers. If customers become vulnerable, and/or if providers identify more vulnerable customers, then the benefits of these policies will grow over time. In this sense our estimate of the benefits for vulnerable customers is a conservative one. Where providers exclude these customers from increases in the monthly recurring price, this will also increase the real value of these commitments over time.

Description and measurement of vulnerable customers

A2.38 The benefits we have estimated are based on those customers whom the providers count as vulnerable. Clearly, wider definitions, better recording of vulnerability and applying these policies to a broader base would increase the numbers recorded and the amount these customers would save.

A2.39 Within the providers' own definitions, there is a gap between the number of vulnerable people recorded and the number we would expect based on ONS statistics and Ofcom market research. We can use Ofcom market research ('Use of Communications, consumer omnibus' survey)¹⁵⁸ to find the proportion of broadband *account holders*, which is more comparable to provider data than ONS population data, who might be vulnerable.¹⁵⁹

A2.40 The group that providers record as vulnerable covers a wide range of vulnerabilities which would generally fall into the category of having a disability. Providers record that 1% of customers fall into this group. This compares to Ofcom market research suggesting that 16% of broadband account holders (aged 16+) have a disability and, within the population as a whole, 28% of those aged 16+ are disabled according to the ONS.¹⁶⁰

¹⁵⁸ See Ofcom, Usability and accessibility research, [Use of communications services, consumer omnibus](#)

¹⁵⁹ Broadband account holders were identified from a UK representative face to face sample of 4278 respondents aged 16+. Around half (2159) stated they were the account holder for their household's fixed broadband service.

¹⁶⁰ ONS figures from "[Measuring disability: comparing approaches](#)", August 2019, OPN definition, as the APS data is less reliable for those aged 65+. Ofcom research figures from 'Use of communications, consumer omnibus survey'.

- A2.41 If we include those aged 65+, Ofcom market research suggests that 18% of broadband account holders aged 16+ are 65+, while the ONS estimates that 23% of the population aged 16+ are 65+. This compares to providers counting 14% of their customers as being 65+.¹⁶¹
- A2.42 The Ofcom market research allows us to identify the proportion of account holders in socio-economic group E, which ONS data does not. Socio-economic group E includes those who are state pensioners, casual and lowest grade workers, and those who are unemployed with state benefits only.¹⁶² As such it may capture some of the customers who need extra help from providers for financial reasons. Ofcom’s market research indicates that 13% of broadband account holders are in socio-economic group E. Table 18 below brings the above estimates together.¹⁶³ Across age, disability and financial vulnerability, the gap between what we might expect the proportion of vulnerable customers to be and what providers are currently measuring could be around 16 percentage points (for example, we estimate from the Ofcom market research that 34% of customers aged 65+, have a disability and/or are potentially financially vulnerable, whereas provider data implies around 18%) .
- A2.43 We recognise that providers will not be able to measure all potential areas of customer vulnerability, not least as some customers may not wish to disclose all vulnerabilities they have. Nonetheless, this gap is substantial.

Table 18: Proportions of customers who may be vulnerable according to different sources

	65+	75+	Disabled ¹⁶⁴	Financially vulnerable ¹⁶⁵	Combined 65+, disabled and/or financially vulnerable	Combined 75+, disabled, and/or financially vulnerable
ONS (% 16+ population, rounded to nearest %)	23%	10%	28%	N/A	N/A	N/A
Ofcom research (%)	18%	7%	16%	13%	34%	27%

¹⁶¹ ONS figures from [overview of the UK population August 2019](#)

¹⁶² See [National Readership Survey, Social Grade](#) (accessed 09.07.20)

¹⁶³ We do not report individual characteristics in the provider data because of the risk that individual provider figures could be identified.

¹⁶⁴ Based on research respondents that stated that issues with their hearing, eyesight, mobility, dexterity, breathing, mental abilities, social behaviour, mental health or other, impacts or limits their daily activities or the work they can do. For the definition of ‘disabled’ in the provider data, we use the vulnerability metrics submitted to us, excluding age and financial vulnerability.

¹⁶⁵ “Socio-economic group E” (Taken from Ofcom’s Use of communication services, consumer omnibus, and defined as ‘State pensioners, casual and lowest grade workers, unemployed with state benefits only’) or “Financially vulnerable” (provider data)

broadband account holders)						
Analysis of provider data ¹⁶⁶	-	-	-	-	18%	11% ¹⁶⁷

Sources: ONS Overview of UK population 2019, ONS “Measuring Disability, comparing approaches” using Equality Act OPN definition

A2.44 In this report we are primarily concerned about the effect of price differentials on out-of-contract broadband customers. In order to estimate the number of such customers who are vulnerable, we have pro-rated the ONS data and Ofcom market research from the table above by the proportion of each type of vulnerable customer out-of-contract.¹⁶⁸ We find the following:

Table 19: Estimated proportions of customers who may be out-of-contract and vulnerable according to different sources

	Over 65	Over 75	Disabled ¹⁶⁹	Financially vulnerable ¹⁷⁰	Combined 65+, disabled and/or financially vulnerable	Combined 75+, disabled, and/or financially vulnerable
ONS (% population, rounded to nearest %)	10%	4%	11%	N/A	N/A	N/A
Ofcom research (% broadband)	8%	3%	6%	8%	14%	11%

¹⁶⁶ We do not report individual characteristics in the provider data in all cases because of the risk that this could result in the disclosure of confidential information.

¹⁶⁷ This is an approximation using weighted average share of those aged 75+ and/or vulnerable among those aged 65+ and/or vulnerable for Sky and BT and then applying it to Virgin Media (who only submitted a flag for 65+). Financial vulnerability was provided only by Sky and BT.¹⁶⁸ This assumes that we have a representative sample of providers’ vulnerable customers. Given the gap in provider recording, there is a risk that providers have not recorded a representative sample.

¹⁶⁸ This assumes that we have a representative sample of providers’ vulnerable customers. Given the gap in provider recording, there is a risk that providers have not recorded a representative sample.

¹⁶⁹ Based on research respondents that stated that issues with their hearing, eyesight, mobility, dexterity, breathing, mental abilities, social behaviour, mental health or other, impacts or limits their daily activities or the work they can do. For the definition of ‘disabled’ in the provider data, we use the vulnerability metrics submitted to us, excluding age and financial vulnerability.

¹⁷⁰ “Socio-economic group E” (Taken from Ofcom’s Use of communication services, consumer omnibus and defined as ‘State pensioners, casual and lowest grade workers, unemployed with state benefits only’) or “Financially vulnerable” (provider data)

account holders)						
Analysis of provider data ¹⁷¹	-	-	-	-	8%	4% ¹⁷²

A2.45 Despite the potential gap in vulnerability recording, some of the vulnerable customers that the providers are not specifically targeting will receive help in the form of the pricing policies and changes from which all out-of-contract customers would benefit (as set out below).

Estimating the benefits of the current pricing strategies to reduce the increase in prices when customers fall out-of-contract

A2.46 BT, EE and TalkTalk are restricting the increase in price for customers who fall out-of-contract. Since April 2019, Sky has implemented a pricing approach of reducing the increase in price for customers who fall out-of-contract.

A2.47 To estimate the total customer benefit from these changes, we use the out-of-contract prices in September 2019 to estimate what the impact would have been, had all customers who were out-of-contract at this time benefitted from these changes on becoming out-of-contract. Details for each provider are given in Table 20 below.

Table 20: Assumptions and methodology for the impact of the current pricing approaches of reducing the increase in prices for customers who fall out of contract

Provider	Which customers are assumed to benefit for modelling purposes	Saving or benefit per customer relative to counterfactual
BT ¹⁷³	Those out-of-contract customers paying more than £8 per month above their respective in-contract price (for both new and re-contracted customers, both of which groups are “in-contract”). For those customers who would have received BT’s standard broadband price reduction, we assumed that the price they would be paying before this policy is implemented based on	The actual price they are paying minus their in-contract price plus £8.

¹⁷¹ As above, we do not report individual characteristics in the provider data in all cases because of the risk that this could result in the disclosure of confidential information.

¹⁷² This is an approximation using weighted average share of those aged 75+ and/or vulnerable and out-of-contract among those aged 65+ and/or vulnerable and out-of-contract for Sky and BT and then applying it to Virgin Media (who only submitted a flag for 65+). Financial vulnerability was provided only by Sky and BT. We then pro-rated this by the proportion of vulnerable customers out-of-contract using the column heading definition.

¹⁷³ We noted in section 4 that BT now plans to reduce its differential to £5 over the next three years in a phased manner. We have not modelled this most recent change due to the fact that it won’t be implemented for 3 years and increases the complexity around aggregation with other benefits. In this sense, our estimate of the ultimate benefits for out-of-contract customers from BT’s protections on the price differential is conservative.

	March 2020 prices was £29.99 (the price those who receive the standard broadband price reduction will be paying), to avoid double-counting with that policy.	
EE	Those out-of-contract customers paying more than £9 per month above their respective in-contract price, as a central scenario given a cap of £8 - £10 will apply.	The actual price they are paying minus their in-contract price plus £9 (a central assumption given caps of £8 - £10 will apply).
Sky	Those out-of-contract customers paying more than £5 above their respective in-contract price.	The actual price they are paying minus their in-contract price plus £5.
TalkTalk	Those out-of-contract FasterFibre customers paying more than £29.95 (£7 above its new customer price), and those out-of-contract FasterFibre with Speed Boost customers paying more than £34.95 (£9 above its new customer price).	The actual price they are paying per month minus the price in the previous column.

A2.48 For analytical simplicity, and because of the uncertainty associated with using a snapshot of data, we have estimated the savings as if the changes had been implemented at a time when they could benefit the customers in this dataset. In reality, the benefits will build up over time towards our estimate as customers fall out-of-contract and replace out-of-contract customers who re-contract or switch. The ultimate scale of the benefits will depend on the duration for which the policies are in place.

Estimating the benefits of BT's standard broadband price reduction

A2.49 BT provided a price reduction to £29.99 for standard broadband customers in non-fibre areas by the end of June 2020, regardless of their contract status.

A2.50 Turning to the steps in our calculation, we:

- Isolate standard broadband customers in non-fibre areas,
- For each individual standard broadband customer, obtain the individual customer benefit from the difference between the current price paid (in the September 2019 dataset) and £29.99 (i.e. March 2020 new price for the customers),¹⁷⁴
- Multiply the number of eligible customers by the average customer benefit to estimate the total monthly benefit, before scaling this up to an annual amount.

A2.51 Both this policy and BT's differential reduction (to £8) reduce out-of-contract customer prices, so there is overlap between them. As explained previously, while the differential reduction should only apply to customers turning out-of-contract from February 2020, it is modelled as though all out-of-contract customers in September 2019 received the differential reduction upon becoming out-of-contract. Therefore, without further

¹⁷⁴ Customers who already receive a price below £29.99 are removed from the analysis given that they will maintain their original lower price.

adjustment there would be some out-of-contract standard broadband customers in non-fibre areas who would receive both the standard broadband price reduction and differential reduction.

- A2.52 In reality, most customers eligible for BT's standard broadband price reduction will receive it prior to being subject to a differential reduction. Therefore, we assume that the standard broadband price reduction occurs in full, then we adjust the differential reduction calculation so that the new £29.99 price for those eligible for both policies is incorporated. This therefore largely removes the risk of double counting.
- A2.53 The risk of double counting is not entirely excluded, because we assume that a customer lives in a non-fibre area if the proportion of premises in their postcode able to receive more than 30Mbit/s is 10% or less.

Estimating the benefits of BT's speed upgrade

- A2.54 BT's standard broadband customers who are served using copper only connections will be migrated to superfast fibre (in those areas where fibre is available), for the same price as they are paying for standard broadband. BT is doing this during summer 2020. BT has stopped proactively selling standard broadband in those areas.
- A2.55 We isolate BT's standard broadband customers in fibre-enabled areas using Connected Nations data from September 2019.¹⁷⁵ We assume that a customer lives in a fibre-enabled area if at least 90% of premises in their postcode can receive more than 30Mbit/s. As a cross-check, we compared this to BT's own estimate, and our estimate was within 5% of BT's.
- A2.56 In estimating the value of migration to fibre broadband, we have drawn on two sources:
- Recent list and promoted prices of standard and basic superfast broadband services; and
 - Regressions using the September 2019 dataset, where price is regressed on speed, tariff and data allowance.¹⁷⁶
- A2.57 We found a point of maximum overlap between these two sources of price information. However, observed price differentials are likely to overstate the incremental value of customers being migrated, since they have not voluntarily upgraded to fibre broadband. If customers were uniformly distributed between those with close to zero value for a speed upgrade (i.e. whose current speed entirely meets their broadband needs) and those with a value close to the price estimate derived above, this would imply an average value half-way between the two.

¹⁷⁵ Ofcom, [Connected Nations 2019: Data downloads](#)

¹⁷⁶ We used the coefficient representing the incremental price for an increase in broadband speed under 30Mbit/s to a speed between 30-55Mbit/s. This gave a range which depended on which group of customers was used i.e. OOC, NC or RC customers.

Estimating the benefits of Virgin Media's speed upgrade

- A2.58 Virgin Media is upgrading around 1m customers on speeds under 100Mbit/s to a speed of 108 Mbit/s at no extra charge, by the end of July 2020.¹⁷⁷ In the calculation of customer benefits, we focus on the impact for out-of-contract customers.
- A2.59 We isolated the out-of-contract customers who received less than 108Mbit/s in our September 2019 dataset. We split these customers by their current speed, i.e. those on 20Mbit/s, 54Mbit/s and 70Mbit/s. This customer split allows us to assign different values to customers receiving a large speed upgrade compared to those receiving less significant speed upgrades.
- A2.60 An increase in speed from 20Mbit/s to 108Mbit/s is large, with an increase of 20Mbit/s to 108Mbit/s being roughly 3 times as high as an increase from a typical standard broadband speed of 10Mbit/s to a basic superfast broadband service (36Mbit/s). As we did for the comparison of standard broadband and basic superfast broadband above, we carried out regressions of Virgin Media's speed and price data this time comparing 20Mbit/s to 108Mbit/s. From this analysis, the incremental price range is wide, and depends on the customer's contract status.
- A2.61 However, the incremental price difference reflects differences in value for those customers actively seeking to upgrade their usage, whereas for this analysis we are concerned with customers who are being migrated by their provider. Moreover, we expect diminishing marginal utility from higher speeds. Therefore, consistent with a conservative approach to estimating customer benefits, we have used a lower value than the average incremental price difference between the speeds in question for our upper estimate of the value.
- A2.62 In contrast to the analysis for the BT speed upgrade, we think it is less likely that there would be a distribution of valuations starting at zero given the size of the speed upgrade from 20Mbit/s to 108Mbit/s. We have therefore used our earlier estimate for an upgrade to basic superfast broadband, as a lower bound for the Virgin Media speed upgrade from 20Mbit/s to 108Mbit/s. Given the range of uncertainty, we have used a value between these upper and lower figures and taken the mid-point.
- A2.63 Turning to the value of moving from 54Mbit/s or 70Mbit/s, we note that the speeds are quite close together and we found that customer volumes are roughly equally divided between the two speeds. Therefore, we combined the value of moving from these two speeds to 108Mbit/s to avoid spurious accuracy.
- A2.64 Given the range of uncertainty and in recognition that some customers may have limited value in a provider-led speed upgrade, we have used a value slightly below the mid-point of the range of regression estimates for the value of moving from 54Mbit/s or 70Mbit/s to 108Mbit/s. We use this figure as the customer value of a provider led speed upgrade from 54/70 Mbit/s to 108Mbit/s.

¹⁷⁷ One slight exception is that customers on Virgin's current 54Mbit/s tier will only receive the speed upgrade if they joined before 1 December 2019.

Estimating the benefit of uncapping broadband usage

A2.65 BT is removing data caps on all its fixed broadband products, as is Plusnet. For the value of the benefit per customer, we derived our estimate using information on the prices of capped and uncapped broadband products and assumptions about the potential pattern of demand. We multiplied this estimated customer value by the number of customers on a capped broadband product in September 2019.

Estimating the benefit of parity access

A2.66 All of the six largest broadband providers apart from Virgin Media are going to offer new customer prices to existing customers, set out in the end of contract or annual best tariff notification. We recognise that this will be of benefit to out-of-contract customers that engage with providers (e.g. in response to ECNs or ABTNs), but we also expect it to be of benefit to all customers who would be eligible regardless of current contract status.

A2.67 In addition, the benefits of this pricing policy are contingent on the impact of ECNs and ABTNs and in this report we are not evaluating the impact of ECNs and ABTNs (which have already been implemented). For these reasons, we have not estimated the impact of new customer prices in ECNs or ABTNs.

The benefits of TalkTalk's inflation protections

A2.68 We do not report a quantified estimate of the benefits of TalkTalk's policy to limit price rises to CPI for many of its out-of-contract customers because the policy is not suitable for aggregation with the other changes and policies discussed above. This is because it does not address the current price differential but rather limits the exposure of out-of-contract customers in future.

Aggregating the benefits

A2.69 We aggregate the estimated benefits of the provider policies in Table 21. We categorise the reductions in the price differential for customers falling out of contract, and BT's standard broadband price reduction as "price changes", while we categorise BT's migration to fibre, BT's and Plusnet's uncapping of broadband data allowances, and Virgin Media's free speed upgrade as "free service upgrades". All figures in the table are net of double-counting as far as possible.

Table 21: Estimated total annual value of provider policies in 2019 prices

Type of proposal	Value to all out-of-contract customers	Of which value to vulnerable out-of-contract customers
Vulnerability commitments	£8m	£8m
Price changes	£224m	£50m
Free service upgrades	£42m	£17m

Total value	£274m	£74m¹⁷⁸
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- A2.70 The total number of vulnerable out-of-contract customers helped by these measures could ultimately be around 1m out of 1.6m total vulnerable out-of-contract customers (which we derive from provider records of those with a vulnerability such as disability, financial vulnerability and age 65+ where such data is recorded). The vulnerability specific policies are estimated to help just over 0.1m customers. The remainder of the 1m are helped by the other policies.
- A2.71 The benefits to out-of-contract vulnerable customers in Table 21 (at £74m) above appear to largely offset the impact of price differentials on these customers (as measured by their price compared to the average price, calculated at £76m earlier in this annex), despite the number of people ultimately helped being around 1m out of 1.6m. This is because firstly, some of these customers are receiving prices reduced to below the average for their product.
- A2.72 Secondly, the service upgrades don't close the price gap but are likely to offer significant value. Thirdly, the remaining vulnerable out-of-contract customers (i.e. around 0.5m) who do not benefit from a pricing policy or a service upgrade, will consist to some extent of those on relatively low prices for their product already. While these remaining customers contribute to the set of vulnerable customers out-of-contract, the potential impact to which they are individually exposed would be negligible.
- A2.73 Finally, in aggregating the benefits from the policies above, it is important that we consider the interaction between them, and how they could overlap. Below, we list the overlaps of each provider's policies and where this is accounted for in our analysis, i.e. whether it is built into the policy-specific calculations or accounted for at the aggregation stage after all individual policy calculations are complete.

Table 22: Interaction between providers' policies

Provider	Interaction between:	Further detail
BT	The differential reduction and the targeted vulnerable commitment	When the calculations are carried out for each of these policies in isolation, there is a group of vulnerable customers who could appear to obtain the benefits of both policies. In reality, these customers will receive the vulnerable specific policy. Estimated gains from the other policy need to be removed, because these customers have already, in the modelling, been moved to the new contract price. We remove the additional benefits from the reduction in price increases for these customers at the aggregation stage.

¹⁷⁸ Does not sum due to rounding to the nearest million in the figures above

	The differential reduction and standard broadband price reduction	When the calculations are carried out for each of these policies in isolation, there is a group of vulnerable customers who could appear to obtain benefits from both policies. In reality, these customers who are already out-of-contract will receive a standard broadband price reduction to £29.99 first and the other policy if they re-contract. For analytical simplicity, we assume that these customers receive the standard broadband price reduction in full, and their “starting” price in the estimations for the reduction in price increases for those falling out-of-contract is changed from their current out-of-contract price to £29.99.
	Targeted vulnerable commitment and migration to superfast fibre broadband	Anyone who is migrated from standard broadband to superfast will not also qualify for BT’s vulnerable pricing commitment. Therefore, any out-of-contract vulnerable customers who qualify for migration to superfast broadband are excluded from the group of customers whom we expect to benefit from the vulnerable pricing measures.
	Targeted vulnerable commitment and standard broadband price reduction to £29.99 BT uncapping of broadband data allowances and other policies	Anyone who receives a standard broadband price reduction to £29.99 will not qualify for BT’s vulnerable pricing commitment, therefore any out-of-contract vulnerable customers who qualify for the standard broadband price reduction are excluded from the group of customers whom we expect to benefit from the vulnerable pricing commitment. BT’s uncapping of data allowances for broadband tariffs is treated as an additional benefit with no double-counting because it provides more value for customers and there is no interaction with the other policies.
Sky	The current pricing approach of reducing the price increases when customers fall out of contract, and the targeted vulnerable commitment	There is a group of vulnerable customers who qualify for the targeted vulnerable commitment, but, as a result of how we have estimated the benefits, also gain from the reductions in price increases when customers fall out of contract. In reality, because the latter pricing approach is forward looking, these customers will receive the former policy only. Hence, we remove the benefit of the latter pricing approach on these customers at the aggregation stage.

TalkTalk	The differential reduction and the targeted vulnerable commitment	As with BT, when the calculations are carried out for each of these policies in isolation, there is a group of vulnerable customers who could appear to appear to obtain the benefits of both policies. In reality, these customers will receive the vulnerable specific commitment. Estimated gains from the other policy need to be removed, because these customers have already, in the modelling, been moved to the new contract price. We remove the additional benefits from the reduction in price increases for these customers at the aggregation stage.
EE	The differential reduction and the targeted vulnerable commitment	As with BT, when the calculations are carried out for each of these policies in isolation, there is a group of vulnerable customers who could appear to obtain the benefits of both policies. In reality, these customers will receive the vulnerable specific commitment. Estimated gains from the other policy need to be removed, because these customers have already, in the modelling, been moved to the new contract price. We remove the additional benefits from the reduction in price increases for these customers at the aggregation stage.
Plusnet	Uncapping of broadband data allowances and the targeted vulnerable commitment	Plusnet's uncapping of data allowances for broadband tariffs is treated as an additional benefit with no double-counting because it provides more value for customers and there is no interaction with the other policies.
Virgin Media	There is no obvious interaction between policies for this provider.	n/a

A3. Glossary

Act: The Communications Act 2003.

Bundle: A combination of more than one service provided by a single communications provider. This can include different types of service (e.g. broadband and landline, or pay TV and broadband) and be provided under one or multiple contracts.

Discounted price: The introductory price paid by new customers of a provider which is discounted below the list price.

Differential: The monthly difference in price charged by a provider to customers on equivalent services, based on average prices paid depending on whether they are a new customer, re-contracted, or out-of-contract.

Dual play: Landline and broadband services provided by a single communications provider.

General Condition ('GC'): A general condition imposed by Ofcom under section 45(2)(a) of the Act.

In contract: A customer who is within their minimum contract period, either in their first contract or having re-contracted.

Fixed commitment period (or minimum contract period): The fixed period of time over which the communications provider and a customer have entered into an agreement for communications services and for which an early termination charge may be payable by the customer if they cancel their contract during this period.

List price: The standard undiscounted price, also known as the out-of-contract price, which consumers pay if they finish their minimum contract period and do not re-contract, switch provider or cancel their service.

Mbit/s: Megabits per second (1 Megabit = 1 million bits). A measure of bandwidth in a digital system.

New customer (also referred to as NC): refers to customers who are within their first fixed commitment period for the service provided by the communications provider.

Out-of-contract (also referred to as OOC): refers to customers who are outside of the fixed commitment period but are still paying for a service provided by the provider (e.g. via a rolling monthly contract).

Quad play: Landline, broadband, pay TV and mobile provided by a single communications provider.

Qualitative research: Semi-structured primary research (often held in focus groups) involving small numbers of selected individuals. The results are collected through insights and behaviours observed or noted from the sessions.

Quantitative research: Structured primary research (often a survey) to collect quantifiable data from a sample of participants which represent a sample of the population of interest.

Re-contract[ed] (also referred to as RC): refers to customers who are within their second or subsequent fixed commitment period for the service provided by the communications provider.

Standard broadband: Broadband services that deliver download speeds of less than 30Mbit/s, typically over a copper telephone line

Superfast broadband: Broadband services that deliver download speeds of 30Mbit/s or higher, typically over fibre-to-the cabinet connection or coaxial cable (on Virgin Media's network).

Triple play: landline, broadband and pay TV services provided by a single communications provider.

'Waterbed effect': An effect that can occur when constraining a firm's prices or revenues in one part of its operations leads to an increase in prices elsewhere.