
Directory Enquiries (118) Review

A review of the cost of calling Directory Enquiries (118)

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CONSULTATION:

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About this document

This consultation concerns the use and regulation of 118 numbers. These are telephone numbers that are used exclusively for directory enquiry (DQ) services.

Prices for calls to DQ services on the 118 range have risen significantly in recent years. In May 2017, Ofcom opened a Call Cost review to examine the rising cost of calling DQ services to ensure that prices are fair and transparent for consumers.

In this consultation, we set out the findings of our review and invite views on our proposals to impose a price cap on DQ service charges to protect consumers.

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1. Executive summary

- 1.1 Telephone directory enquiry (DQ) services are provided on 118 numbers. They are used by consumers who are looking for telephone numbers for individuals, businesses and public services.
- 1.2 Prices for calls to DQ services have risen significantly in recent years. In May 2017, Ofcom opened its Call Cost Review to examine the rising cost of calling DQ services.
- 1.3 Our review has found that while the number of DQ calls are falling, consumers use DQ services when they have few alternatives and when finding the number is important to them. Consumers also call the number they can remember, rather than shopping around for the cheapest deal. We found that as charges have been increasing, there has been a decrease in the advertising of DQ services and their associated prices. This has resulted in poor price transparency and consumers paying much more than they expect.
- 1.4 Ofcom is therefore proposing to take action to protect consumers. This consultation sets out our proposal to change the regulation of 118 numbers to introduce a price cap on the amounts DQ providers can charge consumers.

The prices consumers pay for DQ services have risen steeply while there has been little advertising of DQ services

- 1.5 Ofcom carried out a review of consumers' understanding of the prices they pay for DQ services in 2013. We decided to change the structure of retail prices and to require the prices charged by DQ providers to be published whenever they advertised their telephone DQ services.
- 1.6 We also proposed a maximum price cap on the amount that DQ providers could charge for calls. We had been concerned that for an initial period following the introduction of our proposed new pricing structure, some DQ providers might take advantage of potential consumer uncertainty about the proposed pricing structure and set very high prices in the absence of a price cap. However, we received strong representations from the two largest DQ providers, BT and The Number UK Limited (TNUK) in response to our price cap proposal. They highlighted the particular characteristics of the sector, notably the importance of marketing and brand promotion in driving consumer interest in, and recollection of, DQ services. At the time there was little evidence of bill shock. We therefore decided not to implement our price cap proposal. We concluded that the price publication requirements would be particularly effective in raising consumer awareness of DQ prices and would reduce the risk that prices would rise.
- 1.7 However, since we announced these decisions in 2013, DQ prices have risen steeply. The price of the most popular DQ service, 118 118, has risen more than four-fold in real terms.

A one-minute call to 118 118 now costs £8.98.¹ Other providers charge as much as £15.98 per call.² In 2013, both BT and TNUK argued that a price cap would inhibit investment and innovation in DQ services but we have seen no evidence of material innovation or service development since then, despite the high prices consumers are paying.

- 1.8 There are cheaper DQ services available. Virgin Media customers are able to make 10 free calls a day to Virgin Media's DQ services, O2 charges £1.25 for a one-minute call to its DQ service and BT recently cut its prices by over 50% so it now charges £2.32 for a one-minute call. However, in a consumer survey carried out last year, we found that callers tend not to shop around – the majority either call the only number they know or the first number that comes to mind. Only 3% said that they chose a DQ service because it was the cheapest.
- 1.9 For those who wish to use DQ services, the improvement in consumer price awareness predicted by DQ providers in 2013 has failed to materialise. The requirement to publish prices has not been effective since there is very little advertising of DQ services – both BT and TNUK, which account for the majority of DQ call volumes, stopped marketing their DQ services to any material degree in 2015. Although TNUK advertises its online directory service (118118.com) and money service (118118 Money) which helps to promote brand awareness, the regulatory obligation to include its prices for its telephone DQ service does not apply since the telephone service is not being marketed.
- 1.10 Use of DQ services has fallen sharply, with call volumes decreasing by about 40% a year between 2013 and 2017. We found 2% of UK adults still used DQ services in the last year, rising to 4% for over 65s. Our research found that there are circumstances when consumers are more likely to make use of DQ services, namely where they do not have internet access or where other alternative means of finding the information they need are limited. We found that 82% of consumers said it was important they received the telephone number they were looking for at the time they requested it. The most commonly requested numbers were to health and government/public services followed by residential numbers. We therefore consider that despite the small number of users, directory enquiries provides an important service for consumers.

Consumer understanding of current DQ prices is very poor

- 1.11 Our survey found that consumers' understanding of the level of current DQ prices is very poor. On average, both users and non-users significantly under-estimate the cost of a call lasting just under one minute. The average estimate by DQ users is £1.95 for a call from a landline and £2.36 from a mobile while the average estimates by those who haven't called a DQ service in the last 12 months are even lower - £1.18 from a landline and £1.55 from a mobile.

¹ All prices quoted are service charges including VAT and excluding access charges. For consumers the total cost of a call to a 118 number is the access charge of the relevant communication provider plus the service charge of the relevant DQ service provider. The access charge is almost always a smaller proportion of the total cost of a DQ call than the service charge. Ofcom continues to monitor the level of access charges.

² We are aware of 8 DQ numbers charging £15.98 per call plus 7.99 per minute (after the first 60 seconds).

Many DQ users experience bill shock

- 1.12 Given current price levels, poor price transparency and the fact that consumers tend not to shop around, consumers calling DQ services may be charged high prices but may not know about this until their phone bill arrives. This is evidenced by the high levels of bill shock that we have found associated with DQ calls. Our consumer survey showed that just under 40% of DQ users experienced unexpectedly high bills in relation to at least one DQ call in the previous 12 months. This equates to about 450,000 adults in the UK paying, we estimate, around £2.4 million in excess of expectations.
- 1.13 These features may also hamper the ability of some consumers to access an affordable DQ service while others may face affordability issues, such as being unable to pay their phone bill, as a result of DQ charges. In addition, we are concerned that the ability to charge high prices for DQ services has increased incentives for misuse.

Our price cap proposal

- 1.14 In view of the consumer harm we have found, we consider that it is necessary for Ofcom to intervene by imposing a cap on the price that DQ providers can charge for their services. Taking account of consumer expectations of DQ prices and prices at the time of our review in 2013 (when there was little evidence of bill shock), we consider that the appropriate level of the cap is around £3 for a 90-second call (roughly the average length of a DQ call).
- 1.15 As noted, BT (the second largest DQ provider) reduced its DQ charges on 1 June 2018 so that the cost of a call to its 118 500 DQ service now equates to £3.10 for a 90-second call. We welcome this move on the part of BT, which is in the interests of consumers. In the interests of pragmatism and with a view to securing, as far as possible, speedy implementation of the price cap in order to reduce the scope for further consumer harm, we are proposing a cap that is consistent with the existing price point that BT has now moved to.
- 1.16 We are therefore consulting on the introduction of a price cap on charges for DQ services of **£3.10 per 90 seconds of a DQ call (including VAT)**.^{3 4}
- 1.17 Given the levels of consumer harm we have identified and the rapidly declining sector, we consider that we need to act swiftly. We recognise, however, that there are certain changes to billing systems that industry will have to make in response to a cap. Therefore, we propose a 4-month implementation period after our final statement is published.

Next steps

- 1.18 We invite comments on our findings of consumer harm and our proposal to implement a price cap to address this. The deadline for responses is **22 August 2018**.

³ Service charge cap will be set excluding VAT.

⁴ The prices in May 2018 of a 90 second call: £11.23 for 118 118 (TNUK) and Maureen (118 212); Telecom2 (118 004) is £19.98 and O2 (118 402) is £1.88.

1.19 We aim to publish our conclusions before the end of 2018.

2. Introduction and background

Introduction

- 2.1 This consultation concerns the use and regulation of 118 numbers. These are telephone numbers that are used exclusively for the provision of DQ services.
- 2.2 Prices for calls to directory services on the 118 range have risen significantly since Ofcom last reviewed the regulation of these services in 2013.⁵ In May 2017, Ofcom decided to look at this, opening its Call Cost review to ensure that prices are fair and transparent for consumers.
- 2.3 In this section we explain the structure of prices for DQ services and how these resulted from the decisions we reached following our 2013 review. We also explain why we decided at that time against imposing a price cap on the amounts that DQ providers can charge.
- 2.4 At the end of the section, we outline our powers to regulate charges for DQ services and the circumstances when we may do so.

Prices for directory enquiry services

- 2.5 DQ services are retail services provided by telephone to consumers and businesses that give callers the telephone number of the particular individual, business or public service they are looking for. In the UK, these services are provided on the 118 number range.
- 2.6 DQ services are supplied by service providers (SPs). Some SPs are also communications providers (CPs) such as BT, Virgin or O2 but others, such as Maureen and Yell, are not.
- 2.7 The retail price for a call to a 118 number is made up of the service charge and the access charge. This is known as the “unbundled tariff”. The service charge is typically set by the SP and represents the price of the DQ service called; the caller’s CP sets the access charge, which is the amount charged for the telephone service connecting the call.
- 2.8 For most DQ services, the service charge is much higher than the CP’s access charge.⁶ The most popular DQ service, 118 118, has a service charge of £8.98 for the first minute of the call and £4.49 for each subsequent minute; there are 8 DQ providers which charge £15.98

⁵ Ofcom conducted this review as part of its wider review of non-geographic telephone numbers which it carried out between 2010 and 2013 (the NGCS review). For the purposes of this consultation, the most relevant documents published by Ofcom as part of this review are: *Simplifying Non-Geographic Numbers*, consultation, 4 April 2012; *Service Charge Caps for 09 and 118 Services: Consultation on maximum Service Charges for PRS and Directory Enquiries services in the unbundled tariff regime*, 25 July 2012 (“July 2012 Consultation”); *Simplifying non-geographic numbers: Policy position on the introduction of the unbundled tariff and changes to 080 and 116 ranges*, 15 April 2013 (“April 2013 Policy Position”); *Simplifying non-geographic numbers: Final statement on the unbundled tariff and making the 080 and 116 ranges free-to-caller*, 12 December 2013 (“December 2013 statement”).

⁶ Although the current review focusses on the service charge element of the call price, we will continue to monitor levels of access charges as we committed to do during the previous review outlined below.

for the first minute of the call and £7.99 for each subsequent minute.⁷ The access charges of the main CPs range from about 10.5p a minute to 55p a minute.⁸

2.9 The service charge for a 118 call may have one of four different charging structures:

- i) a one off per call charge (ppc) only, which is the same regardless of the length of the call. This is often referred to as a “connection charge”;
- ii) a per minute charge (ppm) only, calculated by reference to the length of the call in seconds starting from the beginning of the call;
- iii) a per call charge plus a per minute charge, calculated by reference to the length of the call in seconds from the beginning of the call;
- iv) a per call charge plus a per minute charge calculated by reference to the length of the call in seconds from the beginning of the second minute of the call. Under this structure, where a call lasts less than 60 seconds, the caller will only be charged the per call charge.

2.10 The analysis we have undertaken shows that the majority of DQ providers (73.2% by call volumes and 96.5% by revenue), including The Number UK (TNUK) and BT, used option 4.⁹

2.11 In addition to the price structures described above, SPs must choose their service charges based on a list of 100 price points, which all CPs are required to make available in their billing systems.¹⁰ As of September 2017, only 36 of these price points were in use for 118 services, with the three most popular price points being SC087, SC070 and SC038. Prior to BT’s price reduction on 1 June 2018, the three price points provided in the table below accounted for 89% of call volumes and 91% of all 118 service charge revenues.

2.12 These correspond to the following price structures and charges:

Table 1: Price structures and charges

Price point	Charge structure	ppc	ppm
SC087 ¹¹	ppc + ppm (ppm applies after first 60 seconds)	£8.98	£4.49
SC070 ¹²	ppc + ppm (ppm applies after first 60 seconds)	£5.50	£2.75

⁷ <https://www.telecom-tariffs.co.uk/dialdirq.htm>

⁸ TalkTalk’s access charge for its bundle is 10.5ppm – see <https://help2.talktalk.co.uk/how-much-do-uk-calls-cost#0845>; the access charge for Vodafone’s mobile pay monthly and O2’s phone packages is 55p – see <https://www.vodafone.co.uk/help-and-information/costs-and-charges/call-and-text-charges>; <https://www.o2.co.uk/help/account-and-billing/other-numbers-and-charges>.

⁹ As explained elsewhere, BT have now adopted option 3 for 118 500.

¹⁰ See the obligations imposed by GC 17.31 and 17.32. The 100 price points must reflect the volume and range of demand from SPs (on all relevant non-geographic number ranges). The list of existing 100 price points can be found on BT’s website: http://www.bt.co.uk/pricing/current/Call_Charges_boo/FrameworkImpl1350581.htm.

¹¹ SPs using this price point include TNUK (118 118) and Maureen (118 212).

¹² SPs using this price point include Yell (118 247), 192.com (118 119) and prior to 1 June 2018, BT (118 500) (For BT’s new service charges for 118 500, see paragraph 3.13)

SC038 ¹³	ppm only	0	£1.50
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Ofcom's 2013 review of 118 numbers and other non-geographic numbers

- 2.13 The current price structure for calls to DQs on 118 numbers was one of the outcomes of the Non-Geographic Call Services (NGCS) Review, December 2013.¹⁴ This review looked at the regulation of several non-geographic number ranges, including the 080, 084, 087 and 09 ranges, in addition to 118 numbers.
- 2.14 As a result of the NGCS review, Ofcom decided that charges at the time for calls to these number ranges were confusing for consumers. They did not know how much calls cost and this caused them to under and over-use these services. We said that this undermined innovation and service availability. We said that information about prices could be confusing or hard to obtain and that these problems weakened competition.¹⁵
- 2.15 As a result of these findings, we introduced a package of remedies. In relation to the 118 number range, we introduced the unbundled tariff price structure and additional transparency obligations for CPs and SPs about their charges. We said that the changes would enable consumers to know how much they were paying to their CP and how much to the SP.¹⁶
- 2.16 The changes required SPs to include their service charge in a prominent position in any promotion or marketing of the DQ service with the 118 number. This requirement was intended to enable consumers to understand the charges and, where appropriate, remember them.¹⁷ In its response to our consultation proposal, TNUK said "118 SPs invest hugely in marketing their designated numbers in order to aid memorability. Effectively the number becomes the brand name and nowhere is this more true than for TNUK."¹⁸ described the price publication measure as "important" and said it would "significantly improve transparency"¹⁹ while BT observed that it was "aimed directly at improving consumers' understanding of charges and should lead to increased confidence in these services"²⁰.

¹³ Used by Virgin Media (118 180)

¹⁴ December 2013 statement. The remedies that Ofcom introduced as a result of this review came into effect on 1 July 2015.

https://www.ofcom.org.uk/data/assets/pdf_file/0017/72116/final-statement.pdf

¹⁵ April 2013 Policy Position, "Part A", paragraphs 1.4 and 1.5

https://www.ofcom.org.uk/data/assets/pdf_file/0025/58615/part_a.pdf

¹⁶ April 2013 Policy position, paragraphs 1.18.

¹⁷ April 2013 Policy position, paragraphs 1.20.

¹⁸ TNUK September 2012 consultation response, p41.

¹⁹ TNUK September 2012 consultation response, p5.

²⁰ BT September 2012 consultation response, p17.

- 2.17 We considered that for the 118 range in particular, the unbundled tariff and transparency measures would encourage direct competition on the service charge element of the call.²¹
- 2.18 We anticipated that these changes would provide significant benefits to consumers: clearer prices, better competition between providers, and reinvigorated consumer confidence in using these numbers and in turn, for DQ providers to offer new and innovative services.²²

No price caps for 118 number range

- 2.19 In line with our proposals for the service charge for other non-geographic number ranges that we examined as part of the NGCS review, we initially proposed caps on the maximum service charge for DQ services.²³ The caps we proposed were £3 per minute (where the SC comprises or includes a per minute charging rate) and £5 (where the SC comprises a per call charging rate.) We said that the combination of poor price transparency and the potential availability of higher revenues on the range gave rise to a greater risk of bill shock, fraud and bad debt as a result of unpaid bills and that the caps would guard against this.²⁴ Although we considered that the best approach to secure access to affordable DQ services was the introduction of the unbundled tariff, we observed that this consideration would point towards lower rather than higher caps and that the caps we were proposing would avoid “demonstrably exploitative pricing”.²⁵
- 2.20 Two SPs objected strongly to the maximum price caps we proposed for the 118 range – TNUK and BT.
- 2.21 TNUK contested that prices would rise following implementation of the unbundled tariff and said that they agreed with Ofcom’s view that the new price structure would increase competition and place a downward pressure on prices.²⁶ TNUK contended that service quality, variety and innovation would inevitably be damaged by the imposition of the caps.²⁷
- 2.22 BT said that there was a wide range of prices for DQ services, reflecting the differing preferences of consumers and the competitiveness of the sector. It said it was difficult to see how the sector could become any more competitive and observed that a DQ service provider wishing to drive interest in its services was required to make its pricing clear in promotions. It said there was no justification for Ofcom’s view that there was a material risk of pricing becoming exploitative without capping. It also considered that the caps would make innovation and development far less likely.²⁸

²¹ April 2013 Policy position, “Part B” paragraphs 8.22 and 8.39
https://www.ofcom.org.uk/_data/assets/pdf_file/0031/47767/condoc.pdf

²² April 2013 Policy position, paragraphs 1.23 - 1.24.

²³ July 2012 consultation.

²⁴ July 2012 consultation, paragraphs 4.63 – 4.79 and 4.125 – 4.159.

²⁵ July 2012 consultation, paragraph 4.158.

²⁶ TNUK September 2012 consultation response, pp14 and 23.

²⁷ TNUK September 2012 consultation response, pp29 and 32.

²⁸ BT September 2012 consultation response, pp 13 – 15.

- 2.23 Having considered these responses (as well as those of other respondents), we decided that caps on service charges for DQ services could not be justified. We gave the following reasons for this:
- i) First, noting the importance of marketing and brand promotion in driving consumer interest in, and recollection of 118 services, we considered that the new price publication obligations on service providers could be effective in securing price transparency.
 - ii) Second, there was no evidence of fraud on the 118 range and little evidence of bill shock. Further, we said that available evidence suggested that the level of bad debt on the range was lower than average for non-geographic calls, and for all calls.
 - iii) Last, we said the characteristics valued by consumers of 118 services were speed and convenience and so there were fewer incentives for long calls or repeat calling patterns.²⁹
- 2.24 However, we noted that the new unbundled tariff regime could change the nature of existing constraints on retail charges for 118 numbers. Therefore, we said we would monitor the situation and reconsider the need for regulatory intervention in relation to the pricing of 118 services.³⁰

Call Cost Review 2017

- 2.25 Since the new unbundled price structure was introduced, there have been substantial increases in the service charges imposed by some DQ Providers. Ofcom launched the Call Cost Review in May 2017 to ensure prices are fair and transparent to consumers.
- 2.26 We set out in section 3 of this document the findings of consumer harm that we have made from the evidence we have gathered in the course of this review. In section 4, we explain our proposal to impose a price cap on service charges for DQ services in response to these findings.
- 2.27 Our Call Cost Review has been conducted within the framework of Ofcom's powers and duties in respect of the use of telephone numbers. These are set out in more detail at Annex 9. They include:
- a) Ofcom's duty to include in the National Telephone Numbering Plan any requirements which Ofcom considers appropriate for the protection of consumers in relation to tariff principles and maximum prices applicable to numbers listed in the Plan; and
 - b) the related power to set general conditions, imposing tariff principles and maximum prices for the purpose of protecting consumers in relation to the provision of electronic communications services provided by means of telephone numbers.

²⁹ April 2013 policy position, Part B, paragraph 9.94.

³⁰ April 2013 policy position, Part B, paragraph 9.95.

- 2.28 These were the statutory provisions on which Ofcom intended to rely when it proposed the imposition of price caps on the service charges for DQ services on the 118 number range in 2012.

Impact assessment and equality impact assessment

Impact assessment

- 2.29 The analysis presented in this document constitutes an impact assessment as defined in section 7 of the Act.

Equality Impact Assessment (EIA)

- 2.30 Annex 11 sets out our EIA for this review. Ofcom is required by statute to assess the potential impact of all our functions, policies, projects and practices on race, disability and gender equality. EIAs also assist us in making sure that we are meeting our principle duty of furthering the interests of citizens and consumers regardless of their background or identity.
- 2.31 We have considered whether our proposal would have an adverse impact on promoting equality. In particular, we have considered whether the proposals would have a different or adverse effect on UK consumers and citizens with respect to the following equality groups: age, disability, sex, gender reassignment, pregnancy and maternity, race, religion or belief and sexual orientation, and, in Northern Ireland, political opinion and dependants. We consider that our proposals will not have a detrimental impact on any equality group.
- 2.32 Further, we do not propose to carry out separate EIAs in relation to race or gender equality or equality schemes under the Northern Ireland and Disability Equality Schemes. This is because we anticipate our proposed regulatory intervention would not have a differential impact on people of different genders or ethnicities, consumers with protected characteristics in Northern Ireland or on disabled consumers compared to consumers in general.
- 2.33 We consider that the proposals set out in this consultation would further the aim of advancing equality of opportunity between different groups in society by furthering the interest of all consumers using DQ services.

3. Evidence of harm

- 3.1 Ofcom carried out a review of consumers' understanding of the prices they pay for DQ services in 2012-2013. Taking account of the representations we had received from TNUK and BT following our initial proposal to impose a cap on service charges for DQ calls, we decided not to introduce a cap. Our expectation was that the new regulations we were introducing to change the structure of retail prices and to require the inclusion of service charges in advertising would be effective in raising consumer awareness of DQ prices and would reduce the risk that prices would rise.
- 3.2 The evidence we have gathered in our Call Cost Review shows that this has not turned out to be the case.³¹ Prices have risen significantly, there is little advertising of DQ services and their associated prices, and many consumers are not aware of the prices they may have to pay. As a result, we have found evidence of high levels of bill shock among those who have used a DQ service in the last 12 months.
- 3.3 To set these findings in context, in the first part of this section, we provide an overview of the DQ sector, including setting out how prices for DQ services have developed since 2013, as well as the information made available to consumers about these charges.
- 3.4 We then look at the evidence we have gathered about the consumers who use DQ services, the reasons for their calls and how they select the DQ service they call. As we explain, our evidence shows that the vast majority of DQ callers reported it was important to get the number they needed at the time they call, with the most frequently requested numbers being for health and government/public services. For many, calling a DQ service was the only means available to them to get the number needed.
- 3.5 We then turn to the information available to consumers about DQ service charges and set out the evidence we have gathered about consumer understanding about how much calls to 118 numbers cost.
- 3.6 Finally, we set out our finding that these features of the sector, notably high prices, poor price transparency and low consumer price awareness, are causing consumer harm, as evidenced by high levels of bill shock and the increasing rate of complaints about the services. We identify concerns that these features are contributing to affordability issues and may be increasing incentives for fraud and misuse on the 118 range.

³¹ For the purposes of the review, we collected data from service providers and CPs, and analysed complaints about DQ services received by Ofcom, the Phone-paid Services Authority (PSA) and DQ service providers. We have also commissioned a quantitative face to face survey carried out by [Kantar \(2017\)](#) ('2017 Kantar consumer research'), some qualitative in-depth interviews and a [mystery shopping exercise](#).

DQ sector overview

TNUK is the largest retail provider of DQ services

- 3.7 By revenue, TNUK accounted for around 60% of all DQ revenues,³² while a further 20-30% is accounted for by BT.³³ TNUK also accounted for the largest volume of DQ calls in the UK, followed by BT. In September 2017, they both accounted for [X] of retail call volumes. O2 and Virgin Media account for a [X] of call volumes, although their combined share of revenues accounts for just over [X] of the total sector size by revenue.^{34 35}

Table 2: Percentage share of DQ call volumes and revenues ³⁶

	TNUK	BT	Virgin	O2	Others
Call volumes	Around 40%	20-30%	[X]	6%	[X]
Call revenues	Around 60%	20-30%	[X]	0.1%	[X]

Source: information requested from providers formally by Ofcom (2017)

Call volumes are in steep decline

- 3.8 Consumers' use of DQ services is in steep decline. Overall call volumes have reduced from 7.14 million of calls in Q3 2014 to 1.95 million of calls in Q2 2017.³⁷ This represents an average annual volume decline of 38% between Q3 2014 and Q2 2017.
- 3.9 Reported DQ revenues have also declined, from £27m in Q3 2014 to £12m in Q2 2017, an average fall of 26% per annum.³⁸ The slower rate of annual decline in revenues reflects service charge increases over the same period.

³² Data collected through notices sent in October 2017 under s.135 of the CA03 requiring various telecoms providers to provide call level data from a specified 14 day period (18/09/2017- 1/10/2017) ('October 2017 Call level data requests'). 118 118 accounts for >90% of all calls made to TNUK DQ numbers - October 2017 Call level data requests

³³ 118 500 accounts for >90% of all calls made to BT DQ numbers - October 2017 Call level data requests

³⁴ October 2017 Call level data requests

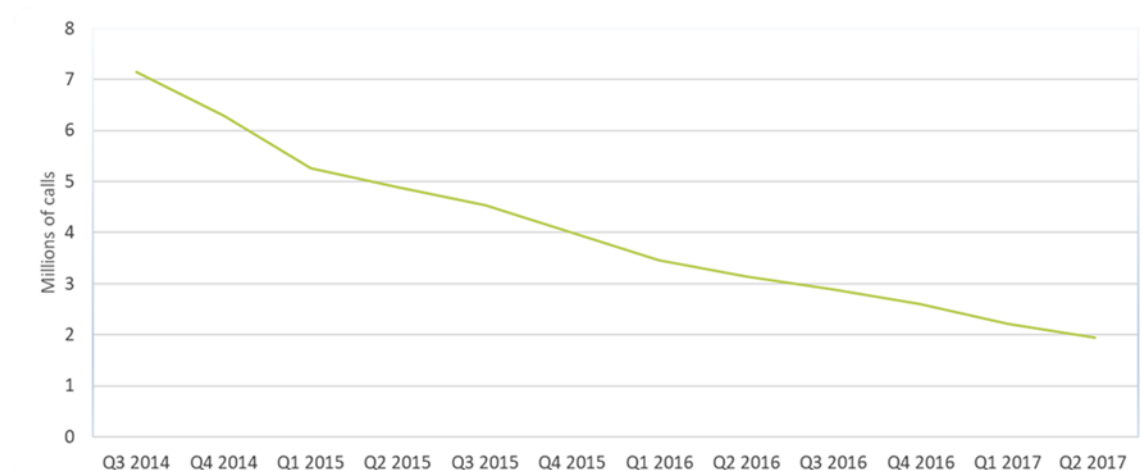
³⁵ [X]

³⁶ CP and SP data.

³⁷ September 2017 DQ provider data. Please note that the number of calls is a representation of the current DQ sector [X]

³⁸ September 2017 DQ provider data. Revenues in nominal terms.

Figure 1: DQ total call volumes (2014-2017)



Source: information requested from service providers formally by Ofcom (Sept 2017)

The prices consumers pay for DQ services have risen steeply

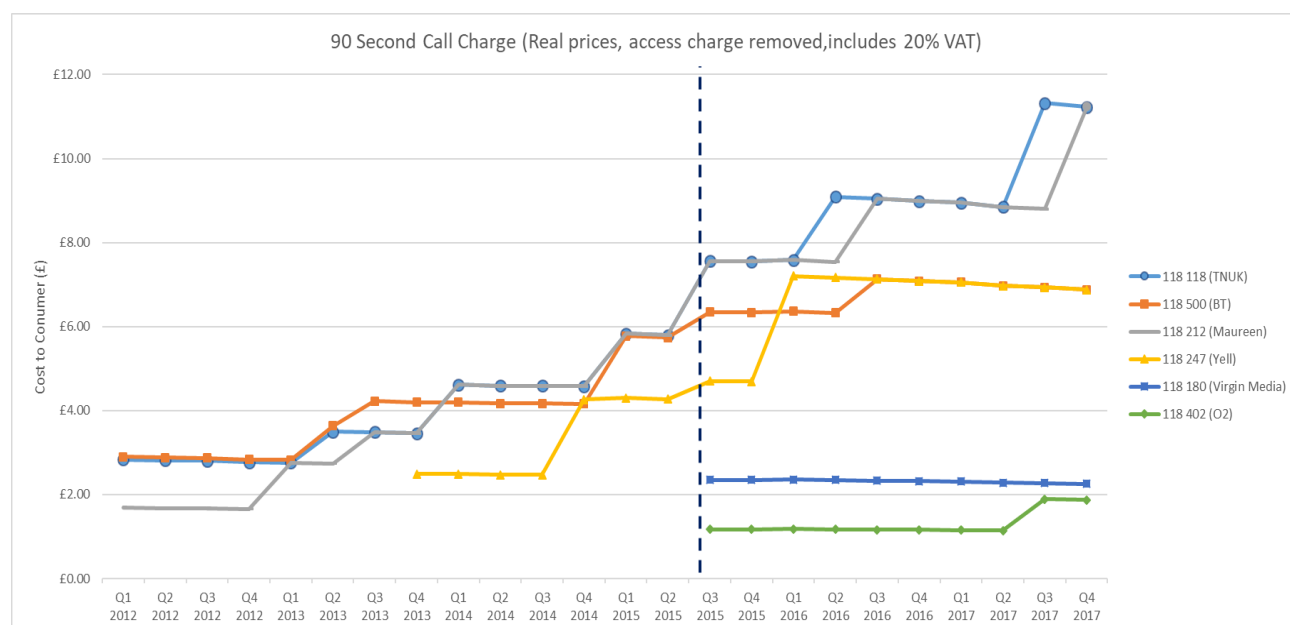
- 3.10 Since our decision not to impose a price cap on service charges for DQ services in 2013, DQ prices have risen steeply.
- 3.11 We estimate that the price of a 90 second call – about the average length of a DQ call - to the most popular DQ number, 118 118, has risen in real terms four-fold from £2.77 in January 2013 to £11.23. We estimate that the price of a 90 second call to BT’s most popular DQ number (118 500) rose from £2.83 to £6.88 in the same period.^{39 40}
- 3.12 The average DQ call duration (mean) is 96 seconds (around 90 seconds or a minute and half).⁴¹

³⁹ The mean average call length for DQ callers was 96 seconds in September 2017. We have rounded this to a 90 second metric across the time period for reasons of comparison. Overall, 50% of calls are about a minute or less (62 seconds), 75% of calls last less than around two minutes (100 seconds) and only 5% of calls are longer than 4.5 minutes (270 seconds).

⁴⁰ All historical figures have been adjusted for inflation based on the CPI index. Also, all service charges prior to July 2015 have been calculated by deducting the amount representing the best proxy for the access charge. See section 4, footnote 123.

⁴¹ October 2017 Call level data requests.

Figure 2: 90 second service charges 2012-2017⁴²



Source: information requested from service providers and communication providers formally by Ofcom (Sept, Oct 2017)

- 3.13 Some providers charge as much as £19.98 for a 90 second call, but there are also much cheaper DQ services available. ⁴³ Virgin Media customers are able to make 10 free calls a day to Virgin Media's DQ services ⁴⁴, O2 charges £1.88 for a 90 second call, and BT has cut its prices by over 50% from 1 June 2018 so it now charges £3.10 for a 90 second call.
- 3.14 However, as set out at paragraph 3.27 below, consumers tend not to shop around to find the cheapest service – the majority either call the only number they know or the first number that comes to mind. Only 3% said that they chose a DQ service because it was the cheapest.

Table 3 Service charges among SPs that account for over 90% of all call volumes (31 May 2018)

	1-minute charge	90 second charge ⁴⁵	2-minute charge
118 118 (TNUK)	£8.98	£11.23	£13.47
118 500 (BT)	£5.50	£6.88	£8.25

⁴² Some data collected from CPs prior to the current review

⁴³ We are aware of 8 different 118 numbers at present where callers will be charged as much as £19.98 for a 90 second call.

⁴⁴ Virgin media website advice at time of publication

<https://help.virginmedia.com/system/templates/selfservice/vm/help/customer/locale/en-GB/portal/200300000001000/article/HELP-2216/Directory-Enquiries-from-your-Virgin-Phone>

⁴⁵ The average length of a DQ call is 96 seconds. We therefore use 90 seconds as a metric to present comparative service charges, given that service charges vary in structure across DQ providers, and can change over time (source October 2017 Call level data requests).

118 180 (Virgin) ⁴⁶	£1.50	£2.25	£3.00
118 402 (O2)	£1.25	£1.88	£2.50
118 247 (Yell)	£5.50	£6.88	£8.25
118 212 (Maureen)	£8.98	£11.23	£13.47
118 004 (Telecom2) ⁴⁷	£15.98	£19.98	£23.97
118 855 (Post Office)	£1.00	£1.00	£1.00

Source: Ofcom desk research.

- 3.15 While the prices consumers are paying have risen substantially, we have seen little evidence of material innovation or service development since 2013.⁴⁸

Service charges are rarely advertised

- 3.16 For those who wish to use DQ services, the improvement in consumer price awareness predicted by DQ providers in 2013 has failed to materialise. Our requirement to publish DQ service charges to help raise the awareness of service charges and reduce the risk of price rises has not been effective as there has been little advertising by DQ providers.⁴⁹
- 3.17 Evidence gathered from TNUK and BT, which account for the majority of DQ call volumes, shows that they rarely advertise their telephone DQ services, so there is very limited promotion of the service charges associated with the most popular DQ numbers.
- 3.18 Since July 2015, BT has not advertised its 118 telephone DQ service (including TV/radio, branding and merchandising, sponsorship or public events), other than banner advertising of 118 500 in the BT phonebook published before July 2017.⁵⁰
- 3.19 TNUK last advertised its DQ telephone service (118 118) at the end of 2015. The service was promoted on TV.⁵¹ At this time, the service charge of a one minute call to 118 118 cost £5.74 compared to £8.98 currently (May 2018). Although TNUK currently promotes its online directory service (118118.com) and money service (118118 Money), including via TV sponsorship, which helps to promote brand awareness, the regulatory obligation to include

⁴⁶ Virgin Media provides 10 free DQ calls to its own home phone customers daily. Onward connection restrictions apply. <https://help.virginmedia.com/system/templates/selfservice/vm/help/customer/locale/en-GB/portal/200300000001000/article/HELP-2216/Directory-Enquiries-from-your-Virgin-Phone>

⁴⁷ Ofcom's mystery shopping exercise below tested a separate lower cost number to Telecom2 (118 018).

⁴⁸ See paragraph 4.52(a)

⁴⁹ https://www.ofcom.org.uk/_data/assets/pdf_file/0017/68030/part_b_annex.pdf - p.416.

⁵⁰ BT's formal information request S135 response, September 2017.

⁵¹ TNUK's formal information request S135 response, September 2017.

the DQ service charge in such advertising does not apply since this service is not being marketed.

On-call pricing information is only provided when using onward call connect

- 3.20 Many DQ providers offer an onward connect service, whereby they will offer to connect a consumer to the number they have requested. Our consumer research revealed that 30% of DQ users reported that they used the call connect service on their last call.⁵² For callers using the onward connect service, the caller is charged at the DQ service charge rate for the duration of the call. As a result, the cost of calling a number using call connect is invariably significantly higher than the rate the caller would be charged if they dialled the number directly. The PSA has set specific guidance for providers whereby they are required to explain the costs of using onward connect to the caller before being put through to the number.⁵³
- 3.21 The mystery shopping exercise (see Annex 8) that we carried out with seven DQ providers indicates that these providers are complying with the PSA's guidance in relation to informing callers of the cost of the call connect service.

DQ user overview

- 3.22 We commissioned consumer research, conducted in November 2017, which focussed on residential users of DQ services.⁵⁴ Based on the responses to our consumer research, we found 2% of UK adults had used DQ services in the 12 months prior to the research. This rises to 4% among those aged 65 and over.⁵⁵

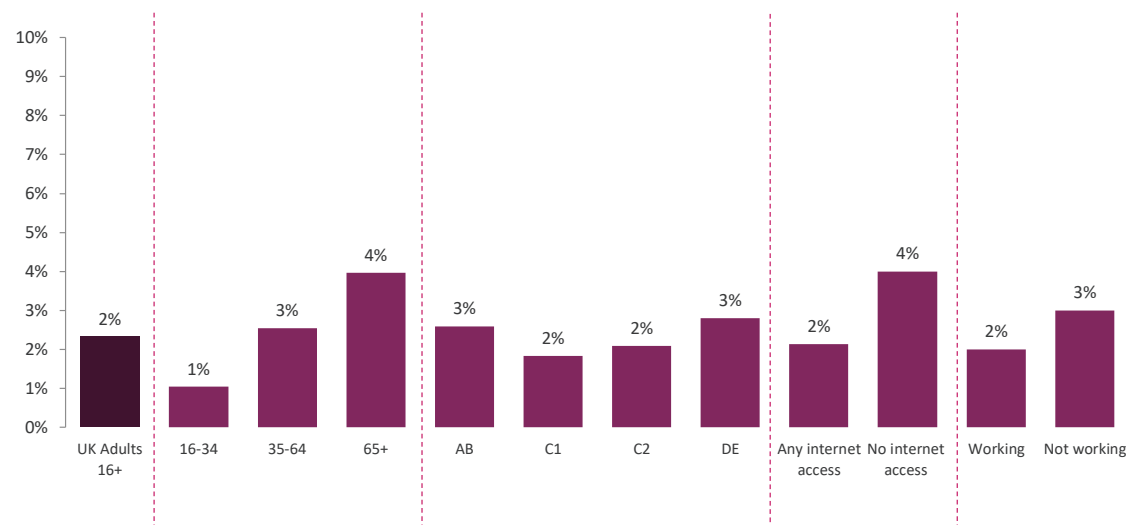
⁵² Kantar quantitative research (2017). Slide 29.

⁵³ Service specific guidance note – Directory Enquiry Services. https://psauthority.org.uk/-/media/Files/PSA/For-Businesses/Guidance-and-compliance/Explore-our-guidance/Guidance-files/17_Directory-enquiry-services.ashx?la=en&hash=2FA9CFB8D93CB71E4099385FDE9AB6BCF9FF10E7

⁵⁴ These are people who have called 118 DQ services in the last 12 months using either a personal mobile phone or home fixed/landline (not paid for by a business). A small number of these people have also called 118 DQ services using a phone paid for by a business over the last 12 months – however this is in addition to a personally paid for call.

⁵⁵ Kantar quantitative research (2017), Slide 17.

Figure 3: Profile of DQ users



Source – Kantar quantitative research (2017) slide 17

- 3.23 In terms of the reasons why consumers ring DQ services, four in five DQ users (82%) said it was important they received the number they requested, at the time they requested it.⁵⁶
- 3.24 Both the consumer research and information from TNUK and BT, the two largest service providers, indicate that consumers use DQ services to request numbers for various public services, businesses and individuals. Our consumer survey showed that the most common numbers requested were those related to health and government/public services (30%) or residential numbers (11%). Other numbers that DQ users requested included restaurants (9%), utility services (6%) and transport services (4%).⁵⁷ Our consumer research found that seven in ten DQ users said that they were satisfied with their last experience of calling a DQ service.

Many consumers have no alternative but to call a DQ service that they remember to get the number they need

- 3.25 Our research shows that a material proportion of users are not able to obtain the number they need by another means.
- 3.26 Just over four in ten (42%) DQ users said they did not have an alternative way of getting the number they needed on that occasion, for example by using the internet or a phone book.⁵⁸ DQ users aged 65+ were significantly less likely to have internet access when they

⁵⁶ Kantar quantitative research (2017), slide 27. 82% said it was very or fairly important that they received the number they requested at the time they made the call, 15% said it was 'not important' while 3% did not know or could not remember.

⁵⁷ Kantar quantitative research (2017) slide 32. Other responses included 'business numbers' (3%), 'retail' (2%) and 'home maintenance/repairs' (2%).

⁵⁸ Kantar quantitative research (2017), slide 34. 10% of DQ users had access to a phone book/directory and 18% of DQ users could not remember whether they had access to an alternative method at the time. Other responses included 'via a friend/colleague/relative' (3%), 'own records/address book (including from a mobile)' (1%), 'advertising material' (1%) and 'other' (3%).

made their last call (i.e. 26% of DQ users said they had an internet connection compared to 13% of DQ users aged over 65).

Consumers tend to call the only number they know or the first number that comes to mind

- 3.27 In terms of selecting a DQ service, the consumer research found that callers tended not to shop around and compare charges between providers. We found that they tended to call the only number they knew or the first that came to mind, with only 3% choosing a particular service because it was the cheapest:
- 31% of DQ users called the only number they knew. A further 26% of DQ users called the first number that came to mind and 14% of DQ users said they called a specific number because they remembered it from advertising.⁵⁹
 - On the other hand, as noted above, only 3% said they used a particular DQ service because it was the cheapest and only 1% of DQ users said it offers the best service/knowledge.
- 3.28 The evidence indicates that consumers who use DQ services, typically do so infrequently and therefore have limited opportunity to become familiar with the cost of making a call, particularly given the pattern of regular price increases since 2013 as shown at Figure 2. Of the 2% of the UK adult population that has made a personal call to a DQ service in the past 12 months almost half (46%) have only made 1 call, 27% made 2 calls and 25% made 3 or more DQ calls.⁶⁰

Consumer understanding of the level of current DQ prices is very poor

- 3.29 The evidence we have collected indicates that consumer awareness of the price of calling DQ services is very poor. Our research indicated that around two-thirds (65%) of DQ users did not know the cost of calling a DQ service before they made their last call. Many of these (43% of DQ users) said they didn't have any idea of the cost at that point.^{61, 62}
- 3.30 Around three in ten non-DQ users were not able to give any estimate of the cost of calling a DQ service from either a fixed or mobile phone, even when provided with a list of potential price ranges.⁶³ Of those able to respond, the average estimates were significantly

⁵⁹ Kantar quantitative research (2017). Slide 26.

⁶⁰ Kantar quantitative research (2017). Slide 20.

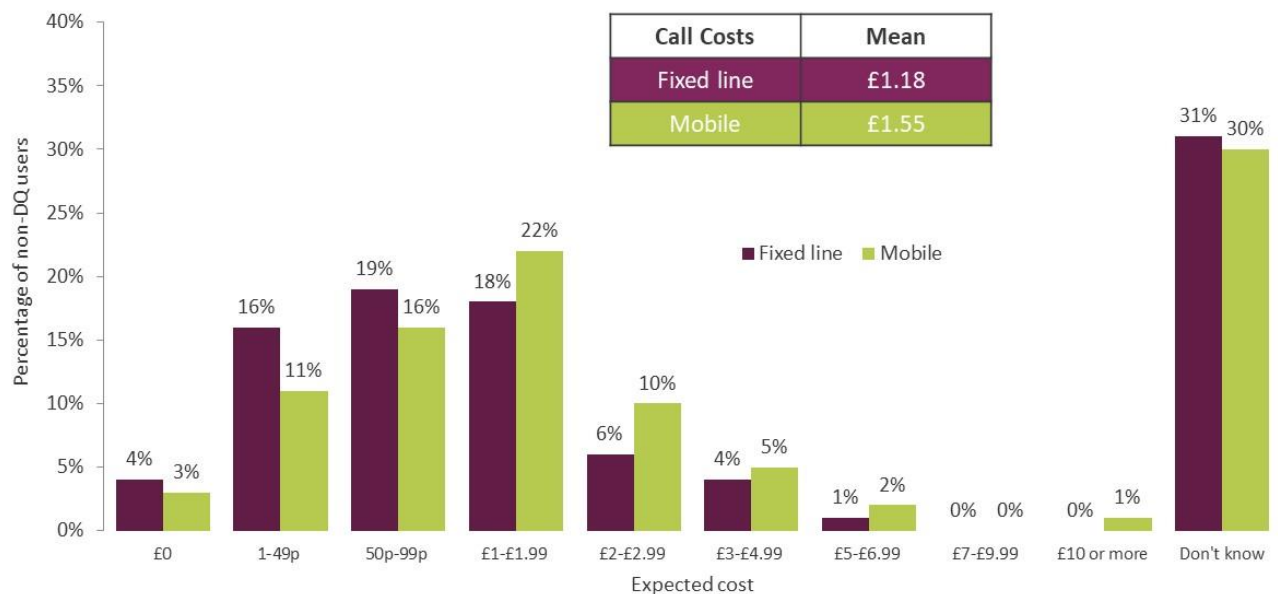
⁶¹ These are people who have called 118 DQ services in the last 12 months using either a personal mobile phone or home fixed/landline (not paid for by a business).

⁶² Kantar quantitative research (2017). Slide 48. 43% of DQ users 'did not know the cost and had no idea what it would be', 10% 'did not know the cost but thought it would be good value', 13% 'did not know the cost but thought it would be expensive'.

⁶³ To measure current awareness of the cost of calling DQ services we asked all respondents (i.e. DQ users and non-users) how much they thought it would cost to make a call lasting just under a minute to a DQ service (from each of a mobile phone and a residential landline). We considered it appropriate to ask both DQ users (who have used DQ services in the past 12 months) and non-users (i.e. not used and personally paid for, in the past 12 months) about their price expectations because DQ use is infrequent – many people who may use DQ services in the future will not necessarily have made a call in the last year.

below the cost of calls to the most popular DQ numbers. Non-DQ users on average estimated it would cost £1.18 from a home landline and £1.55 from a mobile for a call lasting just under 1 minute. We also found that the average estimates specifically among DQ users were significantly below the cost of calls to the most popular DQ numbers. DQ users estimated it would cost £1.95 for a call from a home landline/fixed telephone and £2.36 from a mobile for a call lasting just under a minute.⁶⁴ The service charges of most DQ providers are much higher than these estimates.⁶⁵

Figure 4: Expected cost of a DQ call (lasting just under 1 minute) from a personal mobile/home fixed line for non-DQ users

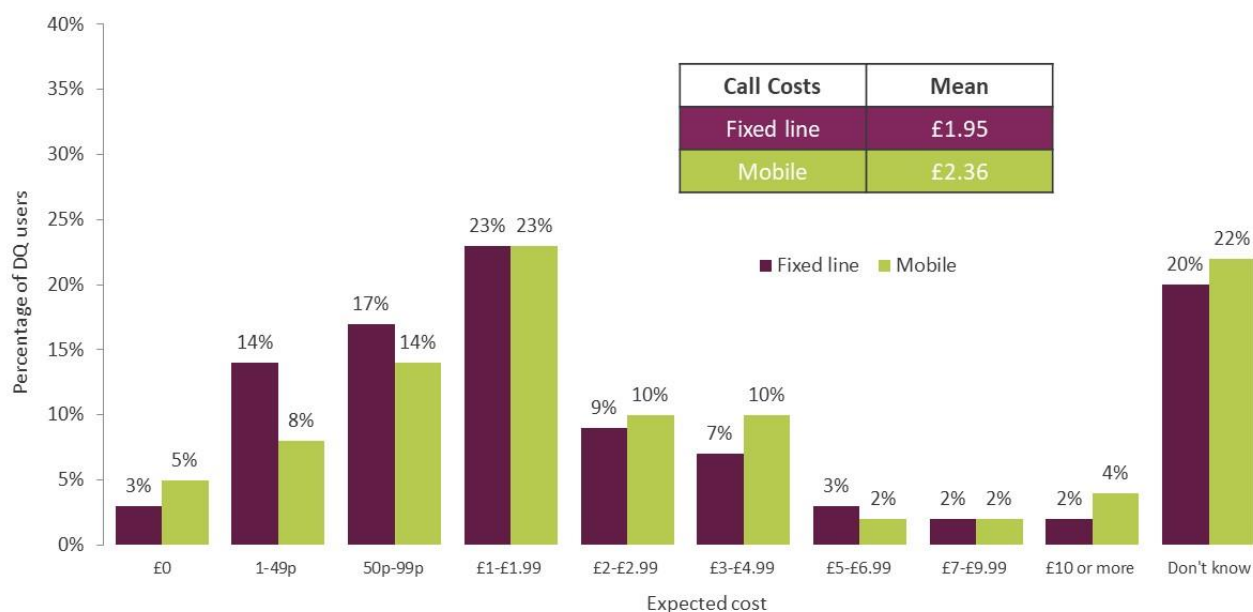


Source: Kantar quantitative research (2017). Slides 40, 42.

⁶⁴ Kantar quantitative research (2017). Slides 39-43.

⁶⁵ The service charge for a call lasting 1 minute to the most popular DQ service 118 118 (TNUK) is £8.98 (May 2018) and other providers charge as much as £15.98 for a 1 minute call. The industry average service charge for a 1 minute call as of September 2017, based on the service charges from BT's price list, was £6.35. The weighted average service charge (based on the number of calls received by each SP) was £7.54. Only 1-2% of respondents gave an answer at the industry average. Even among DQ users, only 2-3% gave a response at the industry average. A further 4-6% of DQ users stated an answer that was higher than the industry average. Kantar quantitative research (2017). Slides 40 and 42.

Figure 5: Expected cost of a DQ call (lasting just under 1 minute) from a personal mobile/home fixed line for consumers who have used DQ services in the last 12 months



Source: Kantar quantitative research (2017). Slides 40, 42.

- 3.31 As set out in paragraph 3.20, DQ call connect services are charged at the DQ service charge rate for the duration of the call. Our research indicates that most DQ users are not clear about the cost of using the onward call connect service. Around nine in ten (86%) DQ users do not understand the pricing for an onward connect call. Just over one third of DQ users (34%) thought they were charged a fixed connection fee, and/or a per minute rate at the cost that would have applied if they had called directly themselves.⁶⁶
- 3.32 DQ users who used call connect in the last 12 months did not have a better understanding of the pricing structure for onward call connection, with 81% of these users not understanding the pricing for an onward connect call. Around four in ten (39%) DQ users who had used call connect in the last 12 months thought they were charged a fixed connection fee and/or a per minute rate at the cost that would have applied if they had called directly themselves.

Summary findings about the features of the DQ sector

- 3.33 Despite declines in call volumes, our evidence showed that for the small number of consumers who call DQ services, they offer an important means to get the number needed, with the most frequently requested numbers being for health and government/public services. We found that there are circumstances when consumers are more likely to make use of telephone DQ services, namely where they do not have internet access or where alternative means of finding the information they need are limited.

⁶⁶ Kantar quantitative survey (2017). Slide 46.

- 3.34 Our evidence showed that DQ service charges have increased sharply since 2013. Although there are cheaper services available, consumers tend to call the numbers they most easily remember, and they don't shop around. Overall there has been little advertising of DQ services and their associated charges by service providers. This means price transparency is poor and many consumers are not aware of the service charges they are likely to pay, at the time that they make the call.
- 3.35 High prices, poor price transparency, and low consumer awareness of prices has resulted in significant numbers of DQ users experiencing bill shock. The next sub-section sets out the evidence demonstrating consumer harm in the form of bill shock.

Bill shock

3.36 In this section we set out our evidence on the extent to which DQ users experience ‘bill shock’, which is receiving charges or telephone bills for DQ calls that exceed what they expected to pay.⁶⁷ We first look at findings from our research in relation to the incidence of bill shock across all DQ calls. We then consider whether using the call connect service contributes to the risk of bill shock.

Around 450,000 DQ users have experienced bill shock

- 3.37 Our research indicates that 39% of users experienced bill shock on at least one DQ call made in a 12-month period. Based on this, we estimate that in total circa 450,000 adults in the UK experienced bill shock in relation to a DQ call.⁶⁸
- 3.38 A similar proportion of DQ users (35%) experienced bill shock on their *last* call, while 21% paid about what they expected for their last DQ call, and 2% paid less than they expected. Many (41%) DQ users did not know what they paid for their last DQ call.⁶⁹ Our conservative estimate is that DQ users have paid around £2.4 million in excess of expectations over the same 12-month period.⁷⁰
- 3.39 To set DQ bill shock in context, we asked all respondents (UK adults 16+) whether they had experienced bill shock using telecoms services in the last 12 months, and if so, what had caused this (e.g. making more calls than usual, calling or using the phone abroad, texting competitions/gaming or apps). The results showed that while DQ is not one of the most likely causes of bill shock in the telecoms sector as a whole, one in ten DQ users recalled bill shock from calling a DQ service at this question. We consider this method of questioning understates the degree of bill shock arising from DQ calls and likely reflects those with more memorable experiences or those without more prominent bill shock experiences in relation to other types of other telecoms use. Further detail is set out in the Technical Report – see Annex 7.⁷¹

⁶⁷ We asked consumers how the cost of the call (last call or other call in the past 12 months) compared to their expectations. We consider that consumers experienced bill shock if they said it cost a lot more than expected or a little more than expected.

⁶⁸ We calculated this by deriving the share of the UK adult population experiencing bill shock and combining this with the total population of UK adults in 2016 (39% of the 2% of UK adults using DQ services is multiplied by the ONS mid-year 2016 population estimates of UK adults aged 16+). This is a base case estimate rounded to the nearest ten thousand. Our lower bound estimate is 330,000 and the upper bound estimate is 590,000 (both rounded to the nearest ten thousand).

⁶⁹ Kantar quantitative survey (2017). Slide 49.

⁷⁰ This is an estimate rounded to the nearest hundred thousand. It is calculated using the reported rate of bill shock on last call (35%) and the average amount DQ users reported spending in excess of their expectations (£5.443). £5.443 is the mean average based on a relatively small sample of 78 responses (excluding 2 outliers). This is a conservative estimate of bill shock harm because we have excluded responses from users that said they spent greater than £90 in excess of their expectations because they distorted the average, not because we believed them to be inaccurate; and it does not include bill shock on any previous calls in this period (as well as, or instead of the last call).

⁷¹ Kantar quantitative survey (2017) data tables, table 1 page 1. Around one in ten (9%) UK adults have experienced at least one incidence of bill shock linked to their use of telecoms services in the 12-month period covered by the research. Prompted codes included in the question were; calling/using phone abroad, higher than usual number of calls, using directory enquiries, texting competitions or gaming/apps, other.

Complaints made to Ofcom

- 3.40 During our last review of DQ services undertaken in 2013, we looked at the number of DQ complaints received by Ofcom. We found that the number of DQ complaints were low in comparison to the volume of calls. We considered this was an indication that bill shock was limited within the sector.⁷²
- 3.41 We have analysed the volume of DQ complaints Ofcom received between October 2015 and September 2017. We received a similar level of complaints to those observed in our non-geographic numbering review; around 10 complaints per month. However, DQ call volumes have declined significantly since then, therefore the rate of complaints as a proportion of call volumes has increased accordingly – we estimate around a six-fold increase in the rate of complaints (see Complaints Annex 5).^{73 74}
- 3.42 Further analysis of the DQ complaints Ofcom received between October 2015 and September 2017 indicates that around 70% of complaints related to bill shock.⁷⁵ Comparing the number of bill shock related complaints received in 2016 with 2011 (a period during our last review)⁷⁶, we estimate that bill shock complaints as a proportion of call volumes have increased significantly – by an estimated five-fold increase.⁷⁷
- 3.43 Our analysis also showed that where complainants had experienced bill shock and were able to report the cost of the call, 49% of these had reported bill shock on calls costing less than £10 with the majority of these being between £5-10 (see Figure 6 below).⁷⁸
- 3.44 Drawing on information complainants provided to Ofcom about the duration or cost of the call (which is set out in Annex 5), we have concluded that at least half of bill shock complaints Ofcom received about DQ calls in the period October 2015 to September 2017 are in relation to short calls (calls lasting less than 2 minutes). This is in contrast to the previous review period (October 2010 to September 2012) where the majority of bill shock complaints were in relation to onward connected calls. Nevertheless, we continue to see

⁷² https://www.ofcom.org.uk/data/assets/pdf_file/0017/68030/part_b_annex.pdf – A22.90

⁷³ We consider that DQ users that wish to make a complaint are most likely to complain directly their communication provider (Annex 5). Therefore, complaints made to Ofcom and the PSA are likely to be only a small proportion of all complaints made about DQ services. Furthermore, there is some qualitative evidence that DQ users may not complain in general, therefore any analysis of complaints is likely to have its limitations.

⁷⁴ Our estimate of a six-fold increase is on the basis of the comparison in the complaints rate about DQ charges in 2009 compared to 2016. The rate of complaints (over call volumes) is based on originating call volumes (minutes) submitted by CPs for 2009 via S135s in the last review and call volumes (number of calls) submitted by CPs for 2016 via S135s in this review.

⁷⁵ The remaining 30% of complaints relate to a number of different complaint categories such as fraud, quality of service, high charges in general ('high charges in general' are complaints whereby the complainant has issue with the high charges of DQ services but does not specifically mention making a call or receiving a high bill, 3% of complaints are relating to high charges in general). The second largest complaint category is fraud with c.10% of all complaints relating to fraud. See Annex 5.

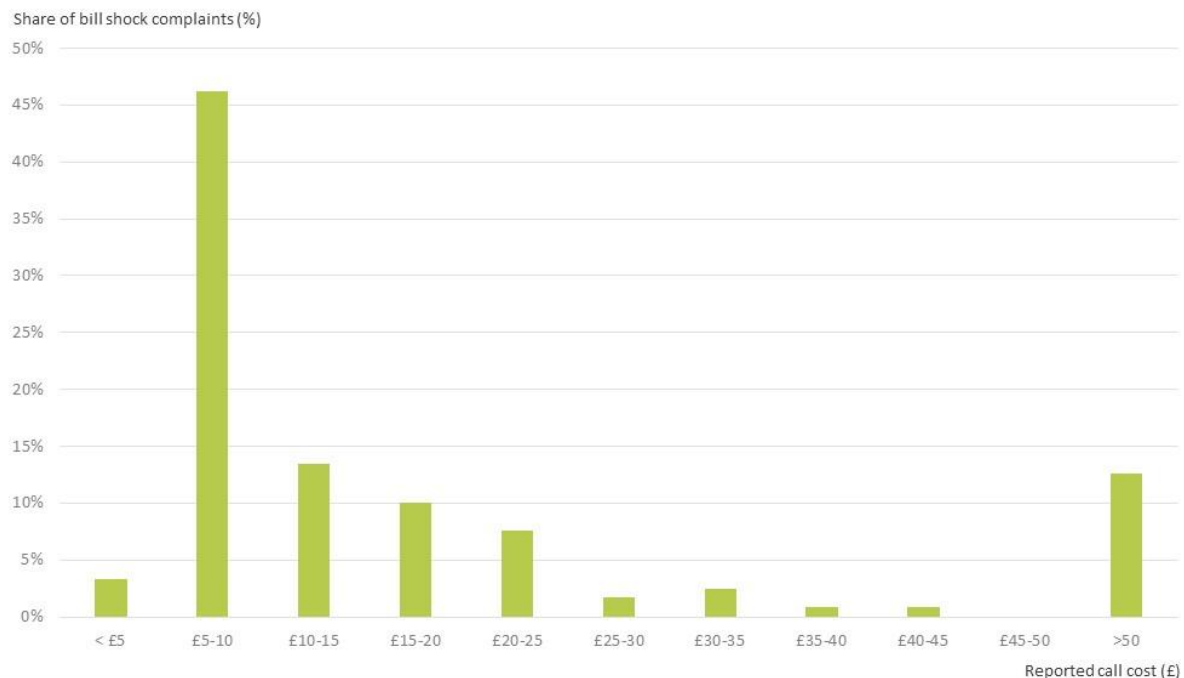
⁷⁶ We chose to compare complaints received by Ofcom during 2016 with those received in 2011 because we have DQ call volume data for 2011, collected via S135s during the last review.

⁷⁷ See Complaints Annex.

⁷⁸ Of 119 bill shock complaints received by Ofcom between October 2015 and September 2017 (inclusive) where the complaint description includes the amount the complainant was charged for the DQ call, 46% were related to calls costing between £5-10.

complaints about onward connected calls and are concerned about these, as discussed below.

Figure 6: Distribution of bill shock complaints by call cost (October 2015 – September 2017 inclusive)



Source: Ofcom contact centre

Bill shock is recognised as an issue by communications and service providers

- 3.45 Some CPs have become sufficiently concerned about the impact of 118 service charges on their customers that they have introduced measures intended to increase price awareness and reduce the volume of complaints they receive. In particular, Vodafone and TalkTalk have introduced pre-call announcements (PCAs) to customers informing customers that calls to 118 numbers are charged at a premium rate.
- 3.46 TalkTalk introduced its PCA in April 2016 because it felt that the high service charges that its customers were experiencing without being given sufficient prior warning from service providers was unfair. TalkTalk told us that complaints were being made following calls to 118 numbers because of high charges and that it wanted to avoid, or at least reduce, bill shock experienced by its customers.⁷⁹ Vodafone introduced a PCA (in October 2017) after identifying consumer dissatisfaction and increased likelihood of complaints from customers calling non-geographic numbers, including DQ services (this is discussed further under remedy assessment section 4.63).^{80 81}

⁷⁹ TalkTalk formal information request s135, January 2018.

⁸⁰ A call whisper is a type of pre call announcement alerting the caller that the call is charged at a premium rate (but no specific price information is given within the announcement).

⁸¹ Vodafone formal information request s135, January 2018.

- 3.47 We also note that both TNUK and BT have introduced voluntary call caps to ensure a consumer is not charged the service charge once a specified limit is reached. TNUK impose a >£20 call charge cap for users calling 118 118 and 118 888 from all originating networks [8]. TNUK have told us that this is to reduce the number of instances where a consumer receives an unexpected charge.⁸² BT impose a £20 call cap on calls made by their own landline customers when calling its own DQ service (118 500).⁸³
- 3.48 Some service providers also have compensation policies in place for when consumers are unhappy with the service they have received. TNUK have told us that it attempts to provide at least a partial refund to all complainants. They told us that “over 97% of TNUK complainants receive a refund. Complaints related to cost, unauthorised usage, sensitive calls, vulnerable callers and service quality result in a 100% refund as a matter of policy. Complaints related to large bills without extenuating circumstances are refunded at a level of at least 50% (and up to 100% at TNUK’s discretion).”⁸⁴ BT also told us that it reviews complaints and requests for refunds.⁸⁵
- 3.49 While TNUK’s compensation policies appear generous, consumers may be unaware that they exist or reluctant to contact an SP to complain for the fear they will incur further high charges.⁸⁶ As set out in Annex 5, the number of complaints made by consumers directly to SPs is a very small percentage of the number of consumer experiencing bill shock, which suggests that consumers are unlikely to be drawing upon the compensation policies available to them in large numbers.

Bill shock and call connect

- 3.50 As set out in paragraph 3.20 above, the PSA has guidance in place which sets out that service providers should explain the costs of using onward call connect to the caller before putting them through to the number. Some providers (notably BT and TNUK) also cap the total cost of the call.⁸⁷

⁸² TNUK formal information request S135 response, September 2017.

⁸³ Ofcom/BT meeting (November 2017).

⁸⁴ TNUK formal information request s135 response, September 2017. Further detail was provided in subsequent correspondence in June 2018.

⁸⁵ BT formal information request s135 response, September 2017.

⁸⁶ Because of rules that restrict charges for a consumer helpline, service providers must provide an alternative contact number (on a geographic, mobile, 03 or freephone number) for consumers who want to complain about a DQ service (Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013, regulation 41./Part 4 Protection from inertia selling and additional charges).

However, these contact numbers may be difficult to find unless the consumer visits the provider’s website. In view of the evidence that we have from the consumer survey about when consumers call 118 numbers and how they select a DQ service, we consider it reasonable to infer that many callers may either not be inclined or are not able to locate the service provider’s customer complaints contact number. In such circumstances, a consumer may decide not to make contact via the 118 number to pursue their complaint, for fear of incurring further charges.

⁸⁷ See paragraph 3.47.

- 3.51 The cost of using the call connect service can be expensive relative to the costs of providing the service. Some DQ providers such as TNUK and Maureen are charging users as much as £4.49 per minute after the first 60 seconds. Yell charges £2.75 for each additional minute, whereas BT has reduced its service charge for calling 118500 from £2.75 per additional minute to £1.55 per minute.^{88,89}
- 3.52 Our consumer research showed that 30% of DQ users reported that they used the call connect service on their last call.^{90,91} The majority do not use the call connect service to make long calls: we estimate that approximately 4% of DQ calls currently involve charges of greater than £20, albeit this still amounts to approximately 198,000 calls a year.⁹²
- 3.53 Our research also indicated that the vast majority of DQ users who have used call connect in the last 12 months do not understand charges for this service. We have indicative analysis which suggests 42% of DQ users who said they used the call connect service during their last call had experienced bill shock.⁹³
- 3.54 As noted above, we have received some complaints about bill shock as a direct consequence of the use of onward call connect with consumers saying they were unaware of the high charges.^{94, 95} In addition, we have used information about the call duration and call cost provided by complainants to estimate that 33% of bill shock complaints concerned onward connected calls, which is in line with the rate of onward call connection.⁹⁶ Furthermore, many of the complaints concerned calls which cost significant amounts. Over half (57%) of these complaints related to calls costing £20 or more, with one complainant reporting a bill of over £200 (see table in Annex 5).
- 3.55 Taken together, the evidence set out above suggests that consumers using the call connect service suffer material levels of bill shock.

⁸⁸ Whilst we have not estimated the exact costs of providing onward call connect, our review of the 070 number range assessed the cost of a very similar service (e.g. including call routing and transit). Based on our review of the 070 number range, we estimated costs for switching, call routing, marketing and billing costs to be 0.596 pence per minute.

⁸⁹ This provides a useful proxy for the cost of onward call connect for DQ services, and supports our view that the cost is likely to be very low, particularly in comparison to the per-minute service charges for DQ services.

https://www.ofcom.org.uk/data/assets/pdf_file/0020/108245/consultation-070-number-range.pdf page 118.

⁹⁰ Kantar quantitative survey (2017). Slide 29.

⁹¹ Based on data that we have received from TNUK, similarly we found that on average 25% of all of its calls are onward connected. TNUK S135 response, September 2017.

⁹² This corresponds to a call of around 6 minutes for BT's previous pricing and of 3 minutes and a half for TNUK's current pricing as of May 2018.

⁹³ Kantar quantitative survey (2017). Slide 49. This result is indicative due to small sample size (87 weighted/90 unweighted). This compares to 33% of DQ users who experienced bill shock on their last call but didn't use the onward call connect service. However, due to small sample sizes we have large error margins and the difference is not statistically significant.

⁹⁴ See Annex 5. Comparing the number of complaints we received in 2011 about onward call connect with those received in 2016, and assuming the rate of onward call connect has not changed since 2011 we find that complaints have increased two-fold.

⁹⁵ However, the volume of complaints recorded by Ofcom as relating to onward call connect may understate the position as complainants are not asked if they used the call connect service, instead we rely on complainants providing this information spontaneously (See Complaints Annex 5 for more details).

⁹⁶ 30% of DQ users used onward connect on their last call according to our research.

Affordability

- 3.56 DQ services can be an important service for some consumers who do not have access to alternatives such as internet search, either because they do not have access to the internet at home or on their phone or they are in situations without access to the internet e.g. roadside recovery in an area without mobile data coverage.
- 3.57 High prices and consumer uncertainty about charges may be deterring some consumers from using the services. These features may cause consumers to be concerned that they may face affordability issues, such as being unable to pay their bill or cutting back expenditure on other goods/services.⁹⁷
- 3.58 As noted, we have observed significant service charge increases since 2013. Last year, the services charges of some providers exceeded the average weekly expenditure on all communication services for consumers in the lowest 10% income group.⁹⁸ While there are cheaper DQ services available, the consumer survey shows that most callers tend not to shop around but rely on memory when calling a DQ service.⁹⁹ This is likely to exacerbate affordability concerns and becomes particularly concerning if users are not able to access alternatives such as internet search.
- 3.59 Our research found that consumers are being deterred from accessing DQ services because of affordability concerns. Among non-DQ users around one in ten (9%) say this is because it is too expensive and 1% say it is unaffordable. Among this sub-group of non-DQ users, 6% said not using a DQ service caused them difficulties in terms of finding the numbers they need.¹⁰⁰
- 3.60 Furthermore, DQ calls could impact significantly on disposable income. For consumers in the bottom 10% income group, a single DQ call to 118 212 (Maureen) or 118 118 (TNUK) lasting 90 seconds would amount to £11.23, which equates to approximately 9% of their weekly disposable income.¹⁰¹
- 3.61 Our consumer research evidence suggests that 8% of DQ users, which equates to approximately 100,000 UK adults, have faced affordability issues because of using DQ

⁹⁷ In the 2010-13 review of non-geographic numbers we included “Access to directory enquiry services at affordable prices” as one of our criteria for assessing the regulatory options for 118 calls.

⁹⁸ Average weekly expenditure on telecommunication services for the lowest 10% income group in 2017 was £7.89. Average weekly household expenditure on communication services is from the ONS and includes expenditure on post, telecoms and internet. A 90 second call to both 118 212 (Maureen) and 118 118 (TNUK) cost between £8.73 and £11.23 during 2017. Source DQ Provider websites.

⁹⁹ See paragraphs 3.27 and 3.28 above.

¹⁰⁰ Kantar quantitative survey (2017). Slides 58 and notes on Slide 61.

¹⁰¹ We note that we are not assuming that consumers make DQ calls on a weekly basis. We are merely considering the impact a single DQ call, in a particular week, might have on the consumer’s budget in that week and their ability to plan their spend for that week. Weekly expenditure/income is particularly relevant for those on pre-paid plans and those that get paid on a weekly basis, who may be more likely to be on lower incomes. Source: ONS

services and the impact on these individuals has been severe.¹⁰² This is significantly higher amongst those in lower socio-economic groups (13% C2DE group compared to 3% ABC1 group) and those not working (12%).

3.62 Of the 8% of DQ users experiencing affordability issues:

- Half of these users said they had to cut back expenditure on other things to pay their phone bill;
- A further quarter of these users said that they had to borrow money from family or friends to pay their phone bill; and
- the remaining quarter had to delay paying their telephone bill or could not pay their bill at all.¹⁰³

3.63 In order to gain a further insight into the affordability of DQ services we also looked at the consumer bad debt that BT has experienced in relation to DQ services. The information that it provided to indicate that consumer bad debt is relatively high on the 118 number range. For the financial year 2016/17 consumer bad debt was in excess of 1% of total revenue from 118 calls.¹⁰⁴ This is higher than the level of bad debt in relation to geographic calls (less than 1%) and all calls (less than 1%). However, we also observe that consumer bad debt from 118 numbers has decreased as a share of revenue (declined from [X] in financial year 2011/12), when one might expect an increase due to the significant increase in prices. We consider that bad debt for BT's own customers may have been mitigated to a large extent by BT's £20 cap on calls to its own DQ service (118 500).¹⁰⁵ TNUK's cap of >£20 may have also contributed to the decline, but to a lesser extent.¹⁰⁶

3.64 To provide further context and obtain personal insights into the harm that resulted from making DQ calls, we conducted 10 telephone in-depth interviews among survey respondents who experienced bill shock, including those that reported affordability issues. We found that there was a vague awareness that calls to DQ services were expensive and that they tried to avoid using the DQ services unless they felt it was absolutely necessary (see Box 1 below for extracts from these interviews). Most explained that they used the service because it was important they obtained the number and there was little or no other alternatives available to them.

¹⁰² Kantar quantitative survey (2017). Slide 54. 100,000 UK adults (16+) is our base case estimate rounded to the nearest ten thousand and is based on the 8% of DQ users reporting use of DQ services had a negative impact on their household finances. We have also estimated lower and upper limits which gives a range of 60,000 and 160,000 UK adults (16+) (both rounded to the nearest ten thousand).

¹⁰³ Kantar quantitative survey (2017). Slide 54. Note that 35% of DQ users were unaware of their household's telephony payments.

¹⁰⁴ BT formal information request S135 response, January 2018.

¹⁰⁵ See footnote 83

¹⁰⁶ Furthermore, call volumes have declined significantly since 2013 and it is possible that a share of users that no longer use DQ calls would have been those that could not afford to do so. Indeed, our 2017 Kantar consumer research revealed that 9% of the population who have not used DQ services in the past 12 months chose not to do so because they either considered it would be too expensive (8%) or because they could not afford to do so (1%).

Box 1: Quotes from telephone in-depth interviews among survey respondents with bill shock¹⁰⁷

"It makes you feel sick and angry. I get angry with myself, and the companies taking the mickey out of people. It shouldn't be allowed."

"If you're in a situation where you are not well... if you don't know what to do, you would just desperately call 118."

[Female, Age 71-75]

"I wanted to speak to someone quickly.... I was in a bit of a panic."

[Male, Age 51-55]

"I just felt stupid.... If it had been a pound or two pounds, I wouldn't have minded but it was £10, I nearly died... I didn't know it was that dear, I nearly died... £10!"

[Female, Age 71-75]

"I wouldn't have made it (if I'd known the charge)"

[Male, Age 56-60]

"I was very angry and how was I to pay that bill?"

[Female, Age 76-80]

- 3.65 Based on the consumer data we have set out above and the comparative data on weekly expenditure relative to the cost of the most popular DQ services, we conclude that there is evidence that a small proportion of callers experience affordability issues when accessing DQ services. This is more likely to affect the lowest socio economic groups and the impact may be material. We therefore consider that current service charge levels may be compromising users' ability to access an affordable DQ service and that this is a consumer harm that we have taken into account in considering remedies.

Misuse

- 3.66 Ofcom had concluded in April 2013 that fraud was not a feature of the 118 calls sector. However, the complaints evidence that we have collected and analysed during the current review does cause us concern about the increasing reports of fraud and misuse on the 118 number range (see Complaints Annex 5). In particular, Ofcom has received complaints from callers who have been induced to call a 118 number after misdialing and hearing recorded message saying for example, 'we suggest you hang up and dial 118 xxx'.

¹⁰⁷ Kantar qualitative depths 2017. Slides 63-75.

- 3.67 We note that the PSA have adjudicated on three relevant cases relating to the promotion of 118 services in this way.¹⁰⁸ The PSA are now consulting on a proposed remedy to this issue.
- 3.68 The complaints cases we have seen often show that consumers are not aware they have called a DQ service until they receive their bill and /or had no idea what the charges would be.
- 3.69 Where evidence of these practices comes to light, enforcement action is likely to be taken. However, in view of the increasing level of complaints about misuse in connection with 118 numbers and the PSA enforcement cases since 2013, we are concerned that the ability to set high service charges for calls to the range provides an incentive for unscrupulous providers to engage in fraud and misuse on the 118 number range.

The nature and scale of harm identified on the 118 number range

- 3.70 We have gathered evidence and carried out analysis, which shows in relation to DQ services on the 118 number range, that:
- there is poor price transparency and low levels of consumer price awareness, in a context where prices have increased significantly;
 - these features of the sector have manifested themselves in material levels of bill shock associated with calls to 118 numbers;
 - there is evidence that some consumers experience affordability issues;
 - there is some evidence of bad debt which is high relative to bad debt in relation to geographic calls and all calls;
 - there may be increased incentives for fraud or misuse.
- 3.71 The evidence of harm that we have gathered pre-dates BT's voluntary decision to reduce service charges for its 118 500 service from 1 June 2018. BT's recent decision was made against the back drop of our review and it reduced the charges for calling 118 500 from £5.50 per call and £2.75 per minute (with the per minute rate applied from the start of the second minute) to £0.77 per call plus £1.55 per minute (with both charges being applied from the start of the call).
- 3.72 While we welcome the decision of BT to reduce its prices in the interests of consumers, we do not consider that it alters our findings of consumer harm. We have found that there is very poor consumer awareness and understanding of DQ prices, and that consumers rarely shop around to find the cheapest provider. We do not expect to see consumers responding

¹⁰⁸ March 2018 : <https://psauthority.org.uk/-/media/Files/PSA/For-Businesses/Our-role-in-the-industry/Tribunal-adjudications/2018/Call-the-118-113-Helpdesk-Limited-106260.ashx?la=en&hash=B48AEB05FF06E631655D02A879E78219491FB6EB>

May 2015: https://psauthority.org.uk/-/media/Files/PhonepayPlus/Adjudications/0001Tribunal_decisions/Consent-Order-Numbergp-Network-Comms-Signed-16-May-2015-final.ashx and

April 2014: <https://psauthority.org.uk/-/media/Files/PhonepayPlus/Adjudications/34513-Tribunal-Minutes.ashx>

swiftly or in material numbers to BT's price reduction in order to reduce their risk of harm. A number of cheaper DQ services have been available for some time, but consumers have continued to use more expensive services. As we explain above, consumers don't tend to shop around to seek out lower cost DQ services. Given that BT's changes are voluntary, in the absence of regulatory intervention, it remains open to BT to reverse its decision at any time. We therefore consider the evidence of consumer harm that we have gathered and set out in this section remains valid.

- 3.73 Accordingly, our view is that there is evidence of material consumer harm arising from the provision of DQ services on the 118 number range which justifies regulatory intervention.
- 3.74 We consider the options for regulatory intervention in the next section.

Consultation question 1: Do you agree with our assessment of harm?

4. Proposals to protect consumers

Introduction

- 4.1 We have considered what measures might be necessary to meet our policy objective of protecting consumers from the harms we have identified.
- 4.2 In assessing these remedies, we have taken account of the extent to which they represent an effective means of addressing our key concern, which is the high prices consumers pay and resulting bill shock consumers experience when calling DQ services. We have also taken account of the extent to which the concerns we have identified in respect of affordability and potential misuse are addressed.¹⁰⁹
- 4.3 Our proposal is a service charge cap¹¹⁰, under which DQ providers would need to set service charges rates such that they do not exceed £2.58 excluding VAT (£3.10 at the current rate of VAT) per 90 seconds (approximately the length of an average call).¹¹¹
- 4.4 In what follows we set out our proposal for a cap on the service charge rates for calls to the 118 range. We also explain why we have rejected transparency remedies such as pre-call announcements (PCAs).

Service charge cap

How would a cap address harm?

- 4.5 In principle, a service charge cap would address each of the harms we have identified:
- a) Bill shock arises from actual prices exceeding consumer expectations. As discussed in section 3 the steep rise in many prices since 2013 is likely to have contributed towards poor consumer price awareness. A cap would reduce service charges (and thus prices), and therefore reduce bill shock.¹¹²
 - b) A cap would improve the affordability of DQ calls by lowering service charges.

¹⁰⁹ Our assessment is consistent with the criteria used in Ofcom's review of non-geographic numbers in 2012, which included consumer exposure to bill shock and fraud; price; consumer price awareness; access to socially important services; service quality, competition and innovation; regulatory burden; and communications providers' exposure to bad debt.

¹¹⁰ The total price for a call is the sum of the service charge (SC), set by the service provider (SP), and the access charge (AC), set by the consumer's CP.

¹¹¹ More precisely, this cap would be £2.57849 excluding VAT per 90 seconds based on £3.095 per 90 seconds including VAT. The average length of a call is 96 seconds. Ofcom already caps retail service charges for other non-geographic number ranges, including the 084 (up to 13p per minute), 087 (up to 7p per minute) and 09 (up to £3.60 per minute or a one off charge of up to £6) number ranges. The 084 and 087 ranges are used by large and small businesses for sales, enquiry and customer service lines and for some pay-as-you go internet access services. The 09 range is for premium rate services including competition, TV voting, horoscopes and chat lines. For further detail see <https://www.ofcom.org.uk/phones-telecoms-and-internet/advice-for-consumers/costs-and-billing/how-much-does-a-phone-call-really-cost>. The 09 Cap is also discussed at 4.19 and the accompanying footnote.

¹¹² Both the overall rate of bill shock among DQ users and, for any instance of bill shock, the extent of any gap between prices and expectations.

- c) Capping service charges would make misuse less profitable, and so reduce the incentives to engage in these types of activity.
- 4.6 The effectiveness of a cap (i.e. the extent to which it addresses harm) will depend on the exact specification of the cap, particularly the level at which it is set. We consider the specification of the cap in the following sections.
- 4.7 A cap has distinct advantages over a PCA. Unlike a PCA, it has a direct impact on prices and does not require consumers' attention and understanding to be effective. This means we can be more certain that this remedy would have a consistent impact across all consumers, more effectively addressing bill shock. A service charge cap is also able to address affordability issues and potential misuse more effectively than a PCA. It should be quicker and cheaper to implement.

Level of the cap

- 4.8 Our view of the appropriate level for a cap, particularly its ability to address bill shock, has been informed by a number of benchmarks.

Consumer expectations

- 4.9 As noted above, bill shock arises from actual prices exceeding consumer expectations. Reducing service charges so that prices are more closely aligned with consumer expectations should mitigate the risk of bill shock. Given this, evidence on consumer expectations are an important benchmark for a service charge cap.
- 4.10 The 2017 Kantar consumer research asked respondents how much a DQ call of just less than one minute would cost from a mobile and from a landline. Around 20% of DQ users and 30% of non DQ users were unable to estimate the cost.¹¹³ The average estimated costs for those who were able to respond are summarised in **Table 4** (and set out in more detail in Section 3).

Table 4: Average (mean) expected cost for a DQ call of just less than one minute¹¹⁴

	Fixed	Mobile
All UK adults	£1.21	£1.56
DQ users	£1.95	£2.36
Non DQ users	£1.18	£1.55

Source: 2017 Kantar consumer research.

- 4.11 The results in **Table 4** are for the overall cost of a DQ call lasting just under a minute, and so would be the total amount respondents would expect to pay. Average consumer price

¹¹³ The definition of a DQ user is 'those that have made at least 1 call to a DQ service in the 12 months prior to the survey (November 2017). They called from a home fixed line and/or personal mobile, not paid for by a business. Non DQ users are those respondents who have not used and personally paid for a DQ call in that 12-month period.

¹¹⁴ 2017 Kantar consumer research. Slides 39-43.

expectations, shown in the results in **Table 4**, along with the prevailing access charges,¹¹⁵ imply service charges for the first minute of a DQ call being no more than £2 (including VAT) and likely somewhat less.¹¹⁶

- 4.12 Industry practice across all call types is that subsequent minute charges are the same or lower than that of the cost for the first minute. For example, TNUK charges subsequent minutes at approximately half the cost of the first minute.
- 4.13 For DQ calls, many of the subsequent minutes will be by customers who use the call connect service. This call connect service is charged at the same rate as for the DQ call. In the 2017 Kantar consumer survey, we asked consumers about the charging structure for call connect, and their responses indicate that the charging structure is poorly understood.¹¹⁷
- a) As noted in Annex 6, 26% of DQ users told us they would only expect to pay a per minute rate for the call connect service. Their responses break down as follows:
 - i) 14% of DQ users told us they would expect to pay a per minute rate charged out at the same rate as a call to DQ services for the call connect service, i.e. the correct charging structure;
 - ii) 7% of DQ users said they expected to pay a per minute charge at the same rate as if they called themselves; and
 - iii) a further 4% of DQ users said they expected to pay a per minute rate but didn't know the per minute rate; and
 - iv) 1% expected to pay another (unspecified) per minute charge for this service.
 - b) This suggests that, amongst the minority of consumers who understand they only pay a per minute rate for the call connect service, half would expect the service charge for the call connect service to be at the DQ call rate. However, 40% of DQ users told us they expected to pay a fixed fee in addition to, or instead of, a per minute rate for

¹¹⁵ For example, BT has an access charge of 13ppm for its standard consumer landline services (see http://bt.custhelp.com/app/answers/detail/a_id/51727/~how-are-calls-to-08%2C-09-and-118-numbers-charged%3F) and EE has an access charge of up to 50ppm for its mobile services (see <https://ee.co.uk/help/help-new/billing-usage-and-top-up/call-text-and-data-charges/charges-for-calling-non-geographic-numbers>). Subtracting these from total call price expectations obtained from the survey implies DQ users would expect the remaining charges (i.e. service charges) for a call of just less than a minute to be around £1.82 from a landline and £1.86 from a mobile and on the same basis non-users would expect the remaining charges to be around £1.08 for calls from a landline, and £1.05 for calls from a mobile.

¹¹⁶ The distributions of responses are shown in Figures 4 and 5. There is a spread of responses around the average expected call cost, reflecting variation in expectations among respondents.

¹¹⁷ The 2017 Kantar consumer research found that 86% of DQ users do not understand the pricing for a call connect call i.e. a per minute charge only, at the same rate as the call to the DQ service (Source: Kantar quantitative survey (2017). Bespoke analysis of data on slide 46). The results do not suggest that those DQ users who used call connect in the last 12 months have a better understanding of the pricing structure for call connect with 81% of these users not understanding the pricing for a call connect call.

using the service.¹¹⁸ 33% did not provide an answer to the question either because they did not know (22%), or did not think any of the options presented were correct (11%).

- 4.14 In summary this evidence suggests that, on average, price expectations are consistent with service charges for calls to DQ services being no more than £2 per minute (including VAT) for the first minute. In relation to subsequent minutes, we note that normal practice for telecoms service is for these to be charged at no more than the first minute and we would generally expect this to be reflected in consumers' expectations. For DQ services, many subsequent minutes are part of the call connect services, the charging structure for which is poorly understood. This makes it difficult to draw clear inferences about what consumers would expect to pay for subsequent minutes under that service given that only a minority (14% of DQ users) understand that they would only be charged at a per minute rate charged out at the same rate as a call to DQ services.

Prices at the time of the 2013 review

- 4.15 We reviewed the DQ sector in 2012/2013, and in our April 2013 Policy Position said that we had not found sufficient harm to impose a price cap and that we expected that the unbundling remedy and transparency requirements we introduced would constrain prices.¹¹⁹ This suggests there is a strong likelihood that the consumer harm we have identified could be reduced by limiting prices to the levels seen in 2013.¹²⁰
- 4.16 This raises the question of which price from 2012/2013 would be most appropriate. We focus on the cost of calling 118 500 (BT) and 118 118 (TNUK) from a BT landline as:
- Like now, BT (as a service provider) and TNUK accounted for a significant majority of DQ calls and revenues;¹²¹
 - The largest share of DQ calls come from BT landlines and the cost of a call from a BT landline was the most common way to express the price for non-geographic calls before service and access charge unbundling.¹²²
- 4.17 In order to make a consistent comparison with current prices, we have adjusted the respective prices for calling two of the largest providers, 118 500 and 118 118, in Q1 2013 (the period when Ofcom was preparing its assessment of the DQ sector immediately prior

¹¹⁸ 21% of DQ users told us that they only expected to pay a fixed fee for using the service; 6% said they expected to pay a fixed fee plus a per minute charge at the same rate as if they had called themselves and 12% said they expected to pay a fixed fee plus a per minute rate at the same rate as a call to the DQ service; 1% said they expected to pay a fixed fee plus.

¹¹⁹ See A22.95-A22.99, Annex 22, 2013 Policy Position.

¹²⁰ It could be that limiting prices to the levels seen at some point in time between 2013 and now would be sufficient to prevent consumer harm. However, we have no evidence to suggest at what point such a threshold would have been reached. For example, we do not see an obvious step change in complaint levels after 2013. However, we do note that prices increased quite quickly after 2013 (see Section 3), and so limiting prices to a more recent level would create a risk that the consumer harm we have identified is not fully addressed.

¹²¹ BT had the higher of the two prices at that time, and so could be considered a more conservative benchmark, but the difference is relatively small, so we report both figures.

¹²² 20-40% of calls in our call-level dataset. Note this is an upper bound as we requested data from the major communications providers rather than all communications providers in the sector.

to our April 2013 finding that there was insufficient evidence of consumer harm to justify a price cap).¹²³ After these adjustments, in Q1 2013 BT charged £1.99 for the first minute and £1.68 per minute for subsequent minutes (including VAT). On this basis, a 90 second call would cost about £2.83. TNUK's equivalent charges were marginally lower, £1.98 for the first minute and £1.57 per minute thereafter, which implies a 90 second call would cost £2.76.

Assessment of the level of the cap

- 4.18 Taken together these benchmarks point to a cap of around £2 (including VAT) for the first and subsequent minutes. Under such an approach the maximum service charge for a 90 second call, which as noted above is about the average length for a DQ call, would be £3 (including VAT). The equivalent figures excluding VAT would be £1.66 per minute and £2.50 for a 90 second call.
- 4.19 We note that when we previously considered introducing service charge caps on the 118 range in July 2012, we consulted on caps set at the same level as the 09 range.¹²⁴ As noted above, the service charge caps for the 09 range limits rates to £3 per minute (£3.60 including VAT) or £5 per call (£6 including VAT) if there is no per minute rate, which are higher than the caps we are proposing to set. The rationale for the level of the 09 caps was heavily influenced by matters specific to the 09 range, including an assessment of harm stemming from calling numbers on the 09 range and considerations such as enabling 09 providers to continue to offer the full range of services available on the range (e.g. micropayments and higher value entertainment services) and providing sufficient incentives for innovation.
- 4.20 In Section 3, we have made specific findings of consumer harm arising from DQ services and the appropriate remedy is one that addresses these harms, not issues that were identified in 2012/13. In relation to the considerations which informed the level of the caps we proposed in 2012, we observe that DQ services are much more homogeneous than 09 services, in particular since the vast majority are provided on a retail or wholesale basis by either TNUK or BT. Nor have we seen evidence of any significant innovation on the range as a result of the high service charges that DQ providers have been able to charge since July 2015 (see paragraph 4.53 below). We also note that in July 2012 we said that the 09 caps we were proposing would prevent “demonstrably exploitative pricing” and said that affordability considerations would point towards lower price caps. In view of

¹²³ The adjustments we have made take account of inflation and VAT and also deduct the amount representing the best proxy for the access charge. Inflation adjustments based on CPI using January 2018 as the reference period. Before July 2015 prices were not broken down into access and service charges. Therefore, to make a like-for-like comparison between pre and post-July 2015 prices we made an adjustment for access charges using revenue retained by the consumer's telecoms provider as a proxy for the access charge before July 2015. Based on our 2010 Flow of Funds https://www.ofcom.org.uk/data/assets/pdf_file/0023/69350/flow-funds.pdf, after adjusting for inflation, we estimate the estimate the proxy for access charges to be about 12.5ppm.

¹²⁴ *Service Charge Caps for 09 and 118 Services*, 25 July 2012, https://www.ofcom.org.uk/data/assets/pdf_file/0031/47767/condoc.pdf. After consultation, we decided a service charge cap for the 118 range was not be justified as there was limited evidence of harm. (See A22.95-A22.99, Annex 22, 2013 Policy Position).

the consumer harms we have identified and the evidence we have about consumer expectations about DQ prices, we consider caps at the 09 level are not appropriate in that they would create a significant risk of continued consumer harm.

Structure and other elements of the cap

- 4.21 In addition to the level of the cap, we have also considered how to structure the cap. In doing so, we take account of the impact on DQ providers' ability and incentive to structure their service charges.
- 4.22 There are four different structures for service charges permissible:
- a) a per call charge only;
 - b) a per minute charge;
 - c) a per call plus an immediate per minute charge; and
 - d) a per call plus a per minute charge which becomes effective after 60 seconds.
- 4.23 A minority of total DQ call volumes ([3%]) are to numbers with a constant per-minute rate (based on Ofcom analysis of call-level data). Our analysis shows that prior to 1 June 2018, the majority of DQ providers by volumes, including 118 118 (TNUK) and 118 500 (BT), charged a per call charge plus a per minute charge which becomes effective after 60 seconds ([3%] of DQ call volumes)].¹²⁵
- 4.24 In 2013, 118 118 (TNUK) and 118 500 (BT) had the same structure of prices, but with charges for the first minute only slightly exceeding the charge for subsequent minutes.¹²⁶ However, a significant majority of call volumes are now to numbers which have a significantly higher charge for the first minute. For example, 118 118, 118 212 and some other DQ numbers operate a service charge structure where the first minute costs twice as much as each subsequent minute.¹²⁷ Some services also have a per-call fee without a per-minute rate, although numbers with this price structure account for a small share of call volumes ([... 3%]).¹²⁸

Setting the cap based on the length of an average call offers greater flexibility to DQ providers

- 4.25 One approach to structuring the cap would be to limit the service charge for any single minute of the call to £2 (including VAT) per minute. This approach would be broadly consistent with the price levels and structures for 118 118 and 118 500 in Q1 2013 and, at least in respect of the first minute, with consumer expectations. Under this approach DQ providers could set any of the following:

¹²⁵ BT now use structure C for 118 500.

¹²⁶ Other service providers adopted a variety of pricing structures.

¹²⁷ The service charge for a call to TNUK (118118) and Maureen (118112) is £8.98 for the first minute or portion thereof (the per call charge) and £4.49 per minute subsequently i.e. after 60 seconds.

¹²⁸ TNUK's 118 811 service is an example.

- d) A (uniform) per minute charge (only) of up to £2 per minute;
- e) A per call charge of £2;
- f) A combination of a per call charge and a per minute charge, so long as neither the first nor subsequent minutes exceeded £2 per minute.¹²⁹

- 4.26 Although this approach does not prohibit any of the existing service charge structures, it does limit pricing flexibility by generating a strong incentive for those who wish to price up to the cap to set a service charge of £2 for each minute of the call (whereas currently, the most commonly used structure by DQ providers is to have a service charge where the first minute of the call is more expensive than subsequent minutes).¹³⁰ We recognise that incentivising DQ providers to adopt a single charging structure may compromise efficiency,¹³¹ and that consumers may also benefit from a diversity of price structures in the sector.
- 4.27 We consider DQ providers would have more flexibility to choose different charging structures if we were to stipulate that DQ providers' service charges for calls do not exceed around £3 (including VAT) per 90 seconds (approximately the length of an average call).¹³² Under this approach, all structures permitted under the above approach would also be permitted. However, DQ providers could in principle choose from a range of service charge structures which would be prohibited under the first approach, including but not limited to: £3 per call fee and no per minute rate; £2 per minute rate and no per call fee; or £2.40 per call fee plus £1.20 per minute after the first 60 seconds (all figures including VAT). This would enable DQ providers to charge a higher rate in the first minute if they wished to, so long as it does not result in a service charge of more than £3 for a 90 second call (e.g. the final example in the previous example). It also better maintains the viability of pricing structures that do not involve a flat per minute rate.
- 4.28 We propose to specify that the cost of each 90 seconds of a call cannot exceed around £3 (including VAT) to mitigate the risk that, without this restriction, DQ providers set a very low charge for the first minute and a high charge for subsequent minutes.

¹²⁹ For example, (i) a per call charge of £2 with a £2 per minute fee starting after 60 seconds and (ii) a per call charge of £1 with a per minute of £1 effective from the start of the call (this would be at the cap for the first minute, but below it for subsequent minutes).

¹³⁰ Most DQ calls by volume and revenue have a 2:1 price ratio between the cost of the first and subsequent minutes. If we were to structure a cap so the service charge could be no more than £2 per minute, a service provider could only retain a 2:1 ratio between the price of the first minute and subsequent minutes by charging £2 for the first minute and £1 for each subsequent minute. By doing so, the service provider would be sacrificing revenue compared with charging £2 per for each minute. The service provider would therefore need to adopt a uniform per minute price structure if they wish to charge up to the cap or adopt some intermediate solution, which would both sacrifice revenue and be a less preferred pricing structure.

¹³¹ 2013 Policy Position previously discussed this at 9.66 to 9.69 and A21.14 to A21.24.

¹³² The average length of a call is 96 seconds. We consider 90 seconds is a reasonable approximation for this average. The difference is small, and we expect it is likely easier for all stakeholders to work with a cap based on a period of 90 seconds. We could have used a call length unrelated to the average length, such as 120 seconds. However, using the average call length has the advantage of giving a stronger degree of control over the charge for short calls than for example a cap based on a 120 second call length. It also delivers broadly the same revenue for the average length call regardless of price structure adopted.

- 4.29 We have considered whether this alternative approach based on an average length call might be less readily understood and so less informative for consumers compared with setting a cap of £2 per minute. However, DQ providers would not necessarily set charges at the maximum level of the cap, and so the cap will not necessarily be a useful anchor for consumer price expectations. Even for those DQ providers that do set charges at this level, many consumers are unlikely to be aware of the cap, even if they are protected by it. We are therefore not persuaded that considerations related to the transparency of the cap itself are sufficiently important to outweigh the benefits of flexibility cited above.
- 4.30 In practice, SPs are restricted to choosing a price point from those available on CPs' billing systems. CPs are required by GC 17 to accommodate at least 100 price points in their billing systems for service charges for calls to non-geographic number ranges (including the 118 number range).¹³³ There are currently 100 price points common to the billing systems of all CPs, which were determined in accordance with guidance issued by Ofcom.¹³⁴ As these price points currently stand, there would only be one price point that a SP could choose to comply with a price cap of £3 for 90 seconds whilst maintaining a pricing structure whereby the first minute is more expensive than subsequent minutes. Under this price point the maximum they could charge would be c£1.18 for 90 seconds.¹³⁵
- 4.31 In light of the fact that eleven of the higher price points exclusive to 118 services¹³⁶ would become redundant under our proposal to cap 118 service charges, CPs (taking account of the demands of DQ providers) would need to agree an updated set of pricing points to ensure they continue to accommodate 100 price points in their billing systems that reflect, on a fair and reasonable basis, the volume and range of demand from other SPs. We expect that there would be demand from DQ providers for new price points within the cap to replace those which will no longer be usable. In order for a revised set of price points to be determined and to make any necessary changes to their systems, a period of implementation will be needed (see paragraph 4.36) for a discussion of how long we propose to allow for this).
- 4.32 However, if we raised the price cap to c£3.10 for 90 seconds this would release an additional price point that could be selected immediately without necessitating any change in the price list (although the price list would still need to be updated): indeed this is the price point BT has chosen for its 118 500 service from June 2018 onwards.¹³⁷ Doing so also avoids the need for BT to update its service charges again: given their revised pricing is within the tolerances of our benchmarks we consider it disproportionate to require them to do this.

¹³³ These are shared with 084, 087 and 09 numbers. For the current price points used by 118 services see https://www.bt.com/pricing/current/Call_Charges_boo/1634_d0e5.htm and http://www.bt.co.uk/pricing/current/Call_Charges_boo/FrameworkImpl1350581.htm.

¹³⁴ https://www.ofcom.org.uk/data/assets/pdf_file/0024/57480/guidance.pdf. For further detail see <http://www.icc-uk.com/download/Final%20Report%20on%20NGCS%20Price%20Points.pdf>

¹³⁵ SC067 which permits an SP to charge a fixed fee of 80p plus 25p per minute effective from the start of the call.

¹³⁶ Because of the caps which apply to the other non-geographic ranges.

¹³⁷ SC066 which permits an SP to charge a fixed fee of 77p plus 155p per minute effective from the start of the call.

- 4.33 On balance, we therefore consider that we should impose a cap under which DQ providers' service charges cannot exceed c£3.10 (including VAT) per 90 seconds of the call. More precisely, this cap would be £3.095 including VAT per 90 seconds (£2.57849 excluding VAT per 90 seconds).

No separate cap for DQ services which have a per-call service charge but no per-minute rate

- 4.34 A small share of 118 services have a per-call charge but no per minute rate.¹³⁸ As set out above, a separate cap applies in the 09 range for numbers which have a per-call charge but no per-minute rate. This was motivated by 09-specific factors such as allowing for parity with other micro-payment methods and accommodating the diversity of services provided over the 09 range.¹³⁹ For the reasons given, we do not consider these factors are relevant for the 118 range. In any case, under our proposed service charge caps, DQ providers adopting a per call (only) structure have the opportunity to earn broadly the same revenue for an average call as DQ providers adopting different pricing structures do (i.e. up to c£3.10 per call including VAT). Therefore, in our view it would not be appropriate to have a separate, higher per call cap for these services.

Exclusive of VAT

- 4.35 We have presented the figures above including VAT, as some figures (e.g. consumer expectations and complaints) are inclusive of VAT, and more importantly the prices consumers pay will include VAT. However, as VAT rates are subject to change, we believe setting the cap exclusive of VAT would provide greater certainty to DQ provider. We therefore propose setting the service charge cap exclusive of VAT, and so we would set the cap at £2.57849 per 90 seconds excluding VAT, which is equivalent to £3.095 for 90 seconds including VAT.

An implementation period is required

- 4.36 We have considered how long to allow to implement the proposed price cap. Given the relatively limited number of price points that need updating and the need for speedy implementation to address the consumer harm we have identified, we consider a three month period from the date of the statement should be sufficient to implement service these changes. We also recognise that CP's require notice of a service change. We anticipate an overall implementation period of 4 months following statement.

Assessment of the cap

- 4.37 We now consider the effectiveness and proportionality of the proposed cap.

¹³⁸ These account for about 2% of calls based on Ofcom analysis of call-level data.

¹³⁹ See, for example, A22.100 to A22.111 of the 2013 Policy Position.

Effectiveness

- 4.38 The proposed cap will reverse the upward trend in service charges. The average service charge for a 90 second call will reduce from £9.43 to no more than c£3.10 (including VAT).¹⁴⁰ For 118 118 (TNUK), the number with the largest share by volumes and revenues, the service charge for a 90 second call would fall from £11.23 to no more than c£3.10. Similarly, 90 second calls from Maureen and Yell would fall from £11.23 and £6.87 respectively to no more than c£3.10.
- 4.39 The cap should also have a significant impact on the cost of calls involving call connect, which are the most expensive for consumers at present. For example, if the service charge structures and distribution of call lengths remains unchanged, this will reduce the share of calls with service charges above £20 from 4% to about 1.5%.
- 4.40 During our review, BT decided to reduce the price of calling its 118 500 service. This means that from 1 June 2018, consumers will not be charged more than £2.32 for a one minute call, and £3.10 for a 90 second call. This is a welcome development which is in the interests of consumers. However, it does not change our view that our proposed cap is necessary to address the harms we have identified. [X]. Given price transparency and consumer awareness of prices is low and consumers tend to call the number they remember rather than shop around, in our view it is unlikely they will switch to cheaper services such as BT's. Finally we note that BT's service charges change was made against the backdrop of our Review and therefore absent a cap we cannot rule out the possibility they could revert to previous levels.
- 4.41 In summary, we consider the proposed service charge cap would be an effective remedy to the consumer harms we have identified, as it would materially reduce levels of bill shock for all types of call. It would also improve the affordability of DQ calls and significantly reduce incentives for potential misuse.

Proportionality

- 4.42 In line with our duties, we have considered whether a service charge cap would have adverse consequences, and if so whether these impacts are disproportionate relative to the benefits of a service charge cap. We have considered the potential impacts including cost recovery for DQ providers, the impact on quality and innovation, implementation costs and other practicalities. On the basis of the evidence we have analysed to date, we consider costs and adverse impacts are unlikely to be disproportionate to benefits.

Cost recovery

- 4.43 We have considered whether a service charge cap would reduce revenues below the economic cost of providing a DQ service and so create a risk that DQ providers would cease

¹⁴⁰ Based on Ofcom analysis of call-level data. This is based on the service charges in BT's price list weighted by the number of calls received by each SP according to the call-level data. Note the £9.43 figure excludes those Virgin Media DQ calls which do not have a service charge. All figures in this paragraph are inclusive of VAT.

to provide DQ services. To inform this assessment, we have examined cost and revenue forecasts provided to us by BT and TNUK in relation to their retail and wholesale DQ businesses. BT and TNUK represent a significant majority of retail DQ volumes, and provide wholesale services to several other DQ providers,¹⁴¹ and so we consider this evidence can enable us to form a view on the impact of the cap on cost recovery for the wider DQ sector.

4.44 With respect to BT:

- a) Revenue and costs related to BT's DQ services are included within the management accounts for its call centres (Voice Services). BT has identified the labour costs associated with DQ services¹⁴², and they account for between [X] per call in 2017/18 and [X] per call in 2022/23 which is [X]. We have also looked at what would happen to the profitability of its DQ services under the proposed cap were an allocation of common costs to be included noting that these may not be relevant to the ongoing costs of running the DQ business. If we were to allocate common costs associated with Voice Services in line with the ratio of DQ labour costs to total Voice Services labour costs, as well as including a return on sales of [X] and those Central IT and overhead costs BT said were relevant to the DQ business, then the profitability of BT's DQ business (branded and managed) would vary between [X] in 2018/19 and [X] in 2022/23.¹⁴³
- b) In any case, as previously noted, shortly before we published this consultation, BT reduced the service charge for 118 500 so that a 90 second call now costs c£3.10 (including VAT), i.e. at the level of our proposed cap. We therefore consider it is unlikely that the proposed cap would have an effect on cost recovery for BT.
- c) BT have also provided information on its contracts to provide white label DQ services to other DQ providers. The terms of these contracts are relatively similar across SPs in terms of the charges. All DQ services managed by BT incur a per call charge (average of [X]) and per minute charge (average of [X] per minute). For services which send customers an SMS with the requested number there is an average charge of [X] per SMS.¹⁴⁴ We would not expect the charge for these services to be below the incremental cost BT faces of providing the service, and so these charges are a useful indicator of the cost to BT of providing a DQ service. Based on this evidence we do not have grounds to believe that the operators to whom BT wholesales DQ services would cease to provide DQ services for cost reasons under the proposed cap.

¹⁴¹ See Section 3.

¹⁴² Including the labour costs of supplying 195 calls.

¹⁴³ This does not include depreciation but, even if this amount were included per annum, profitability would not be significantly impacted. Please note: BT's DQ information provided included revenues and costs associated with providing 195 services. Our calculations strip out 195 services from revenues (directly) and from costs by prorating costs using volumes.

¹⁴⁴ In addition, BT also [X]

- 4.45 TNUK forecast a sharp decline in volumes, [§]. Based on an assessment of the financial information provided, [§]¹⁴⁵.
- 4.46 However, we place limited weight on this data for the following reasons:
- a) It is unclear whether the allocated common costs represent the costs that would be considered in a decision regarding whether or not to continue supplying DQ services. We note in this context, and under this approach to cost allocation, [§].¹⁴⁶
 - b) Like BT, TNUK have also provided information on its white label DQ services to other DQ providers, [§].^{147 148}
 - c) The forecast cost per call is also particularly sensitive to the size of the decline in call volumes, which is uncertain. [§].
- 4.47 In light of this, on the basis of the information we have currently from TNUK to explain its forecasts, we do not consider they provide a sufficiently robust basis to adjust the proposed level of our cap on the grounds it would threaten cost recovery and thereby outweigh the consumer benefits it is intended to achieve.
- 4.48 We will consider any further evidence supplied by consultation respondents on this issue.

Changes to the cap after implementation

- 4.49 We recognise that any forecast of costs and volumes is uncertain, and so there is a risk that a situation could arise, after the remedy is implemented, where the cap is preventing efficient cost recovery.
- 4.50 We have considered whether it would be appropriate to link the cap to some measure of inflation (e.g. CPI). It is not clear to us that inflation measures such as CPI would be closely associated with the likely evolution of costs in the DQ sector. Further, because the service charges that DQ providers can select are constrained by the price points on CPs' billing systems, it is not clear that DQ providers would be able to easily adjust their prices in response to index-linked changes to the cap. We are therefore not proposing to link the cap to a measure of inflation.
- 4.51 It remains open to Ofcom to consider after implementation whether to adjust the cap if it is presented with evidence that this may be appropriate on proportionality grounds.

Impact on service quality/innovation

- 4.52 We have considered the impact of the service charge cap on innovation and service quality on the 118 range:

¹⁴⁵ This analysis does not include a rate of return. If a return on sales of 10% was included TNUK would [§]

¹⁴⁶ Information provided to Ofcom by TNUK in June 2018 as part of pre-publication confidentiality review.

¹⁴⁷ [§]

¹⁴⁸ [§]

- a) Service charges have increased considerably in recent years. However, there is scant evidence of innovation in that period. For example, DQ services on 118 numbers introduced since July 2015 account for a very small share of volumes ([less than 1%]).¹⁴⁹ We are aware that a mobile app connected to a DQ service was introduced in 2016, but take-up appears to have been very low. We are not aware of any other instances of innovation in the sector. This suggests price increases in recent years have not been associated with investments leading to innovation.
- b) While it was not designed to comprehensively compare all aspects of quality across DQ providers, our mystery shopping exercise allows for a comparison of some elements of service quality including response rates, time to answer calls, and time taken to provide the number. Overall, DQ providers' performance in respect of these factors was quite similar and does not suggest a clear association between price and service quality.
- c) We expect declining volumes are likely to be the most significant influence on the incentives for innovation and service quality in the coming years. In this context, a service charge cap is unlikely to have a material influence by comparison.

4.53 We therefore do not expect to a service charge cap to have a material impact on levels of innovation and service quality in the 118 range.

Other aspects of proportionality

- 4.54 We recognise that this is a sector in decline and so a remedy which would require significant one-off costs, such as changes to billing systems, would be undesirable. We have therefore sought to specify the cap in a way that minimises such costs.
- 4.55 We expect it would be relatively straightforward for DQ providers, if necessary, to change their service charges to a level below the cap. We also consider our proposed structure for the cap, based on a 90 second call, gives DQ providers sufficient flexibility in setting prices, and is not unduly restrictive.
- 4.56 As set out at paragraph 4.38, the pricing points for 118 numbers would need to be updated in response to the proposed cap. We recognise this could involve some administrative costs for DQ providers and CPs, however we expect these would be small compared to the benefits of the remedy. We consider the four month implementation period discussed at paragraph 4.38 should be sufficient to implement these changes.
- 4.57 Any price cap we impose would be specified to apply only to calls made by consumers. DQ providers have told us that they are not able to distinguish business customers calling a generally available DQ service from consumers and they are therefore charged on a uniform basis. This would mean that the price cap would apply to charges for business callers in practice. We understand that there may be business models that DQ providers can adopt to ring fence charges for business calls from a cap. We are aware, for example, that BT has a 118 service (118 707) which is targeted at business users. We also expect that

¹⁴⁹ Based on Ofcom analysis of call level data and Ofcom data on number allocation.

consumer usage accounts for the majority of DQ usage, and so the benefits for consumers would be large relative to any impact on business customers.¹⁵⁰ In our view, any unavoidable adverse consequences for DQ providers would not be so great as to be disproportionate.

Other approaches to remedies

4.58 In deciding how to address the consumer harm we have identified in relation to DQ calls, we have considered whether other remedies might be effective.

4.59 The other remedies we considered were:

- a) a requirement for the service charge to be announced at the start of each call, before the caller connects to the DQ provider. This information would be provided in a 'pre-call announcement' (PCA). We discuss this further below;
- b) whether we might amend GC14.10 and GC14.11 (C2.8 of the new General Conditions) and the corresponding obligation under the telephone numbering condition. The amendment we considered would require DQ providers to advertise the price of their services whenever they refer to a DQ number in marketing, whether or not they are directly marketing their DQ telephone service. Such a requirement would have no impact on the majority of DQ providers, while those within scope might adjust their marketing strategies and thereby reduce any potential effectiveness. Further, it may lead to confusion among consumers if call costs are being explained within adverts that are primarily concerned with promoting non-related services such as financial products etc. We therefore decided that this remedy would be ineffective at addressing the harms we have identified, either on its own or in conjunction with other remedies.
- c) a backstop cap on the total amount of the service charge that could be charged for an individual call. We discounted this on the basis that it would be ineffective at addressing the harm from shorter calls, which form the vast majority of calls made to DQ services. On this we note that, based on a sample of calls made between 18 September to 1st October 2017, 4% of calls incurred a service charge of over £20 and 7.5% of calls incurred a service charge of over £15.

Pre-call announcements (PCAs)

4.60 A PCA is a message containing call cost information played at the start of each call, before the caller connects to the DQ provider. PCAs can be generic or specific:

- A 'generic' PCA is a general announcement applicable to all DQ services to highlight the higher costs of calls but does not refer to the specific tariff that applies to the

¹⁵⁰ Ofcom estimates using data obtained from CPs suggests DQ calls made by consumers could account for c80% of all DQ calls (from Q2 2016 to Q1 2017), based on the share of consumer calls among the data from CPs who were able to provide a breakdown between consumer and business volumes ([3]).

number being called. These PCAs can be implemented by the caller's own CP.¹⁵¹ Vodafone and TalkTalk have voluntarily introduced generic PCAs for their customers to increase awareness of costs and reduce the volume of complaints.¹⁵²

- A further option is a tariff-based PCA. This would detail the service charge (which may take a number of different forms) applied by the DQ provider and inform the caller that they also have an access charge to pay.¹⁵³ A tariff-based PCA may be given by the OCP or, following connection of the call to the 118 number, by the terminating communications provider or the DQ provider. Currently no UK provider has implemented this type of announcement on the 118 number range.

¹⁵⁴

- 4.61 Examples of tariff-based PCAs that would apply for some existing DQ numbers might be as follows:

118 118 (TNUK)

"The service charges for calls to this number will be £4.49 per call plus £4.49 per minute, with minimum 60 second charge applying including vat. In addition, you will be charged an access charge per minute by the telephone or mobile operator that bills you for calls."

118 247 (Yell)

"The service charges for calls to this number will be £5.50 for the first minute and then £2.75 for each subsequent minute including vat. This is the service charge. In addition, you will be charged an access charge per minute by the telephone or mobile operator that bills you for calls."

- 4.62 We consider below the likely effectiveness of PCAs in addressing the harms we have identified. This assessment will initially focus on the effectiveness of PCAs in addressing bill shock and then go on to look at their effectiveness in relation to the other harms namely affordability and fraud.

Assessment of generic pre-call announcements

- 4.63 As generic PCAs do not inform the caller of the actual service charge they will pay for the 118 number called, we do not consider that they provide an effective means for reducing the risk of bill shock. Specifically, they do not provide sufficient information to enable the

¹⁵¹ Examples discussed below.

¹⁵² Talk Talk introduced their PCA in April 2016 in order to reduce complaints about billshock. Source: TalkTalk response to January 2018 S135 request.

Vodafone introduced their PCA in October 2017 after they identified domestic out of bundle charging as a major source of customer dissatisfaction. 09 and 118x numbers were identified as being of particular concern due to higher call prices and potential for customers to experience bill-shock. Source: Vodafone response to December 2017 S135 request.

¹⁵³ It is technically possible for the message to also include the level of access charge in the announcement. However, this can add complexity and cost to the solution – particularly if provided by the Terminating Communications Provider (TCP)/service provider. It may also provide more complexity to customers hearing the message.

¹⁵⁴ The Communications Provider on whose network a call terminates.

consumer to understand the price they will pay for the call and so make an informed decision about whether or not to proceed with the service. This can lead to poor outcomes for consumers. Some consumers may overestimate service charges, resulting in under-consumption, even for services that are charged at levels unlikely to cause bill shock. If consumers under-consume on the basis that they suspect service charges are high or unaffordable, some DQ providers may not have an incentive to provide cheaper services and those that do are penalised. Applying a generic PCA above a certain service charge threshold could mitigate this risk to some extent but it would increase the costs of implementation.

- 4.64 In response to previous consultations TNUK have expressed views in relation to PCAs both in terms of effectiveness and in terms of the impact on the service provided. In its “Response to Ofcom Consultation on Simplifying Non-geographic Numbers”¹⁵⁵ TNUK stated “we believe that it [a PCA] creates a very poor consumer experience which significantly undermines the value of a DQ service to consumers”. TNUK went on to state that it had carried out research that indicated “42% of consumers who call 118 118 do so because they were in a hurry and it was the quickest way to obtain the information they needed”. From its own research and Ofcom research set out in the in the “Consultation on Simplifying Non-geographic Numbers”¹⁵⁶ it concluded that “consumers will be significantly annoyed by first having to listen to an automated announcement, which will therefore have a detrimental impact on the entire DQ consumer experience and potentially their propensity to call in the future”.

Assessment of tariff based pre-call announcements

- 4.65 A tariff based PCA with service charge information is likely to improve awareness of the charge at the point of call. Experimental research appears to support this suggesting that providing call charge information at the point of call aids decision making.¹⁵⁷ This could in turn reduce the incidence of bill shock. However, in order for this announcement to be fully effective in addressing the problem of bill shock, it relies on all callers being able to understand the information and make an informed decision on the basis of it.
- 4.66 As noted above, TNUK has raised concerns in relation to PCAs in general. In relation to tariff based PCAs specifically, in its “Response to Ofcom Consultation on Service Charge Caps for 09 and 118 Services”¹⁵⁸ dated 19 September 2012 TNUK commented “A PCA would only apply to the SC (service charge) and therefore provide no information about the total

¹⁵⁵ 27 June 2012, https://www.ofcom.org.uk/data/assets/pdf_file/0027/76743/the_number_uk_ltd.pdf

¹⁵⁶ <https://www.ofcom.org.uk/consultations-and-statements/category-1/simplifying-non-geographic-no?showall=1>

¹⁵⁷ The research found a more detailed PCA, where a full set of information is provided (the AC and SC) would help callers to make better decisions (compared to partial or no information). Page 16, October 2009 London Economics Experimental Research Final Report produced for Ofcom:

https://www.ofcom.org.uk/data/assets/pdf_file/0023/31865/experiments.pdf and Page vii - viii, August 2011 London Economics report for Ofcom on ‘Experimental work on potential interventions in relation to non-geographic calls’:

https://www.ofcom.org.uk/data/assets/pdf_file/0031/56983/interventions-non-geographic.pdf Note this research is based on a controlled laboratory experiment and some features of the experiment may not match the DQ environment.

¹⁵⁸ 19 September 2012, https://www.ofcom.org.uk/data/assets/pdf_file/0027/42957/118.pdf

call cost and might actually therefore be misleading and confusing”.¹⁵⁹ It further stated that “far from improving transparency or price awareness, a ‘SC only’ PCA would actively undermine it. It would give consumers false confidence that they understood the price of a call, which in some cases might increase, rather than lessen, incidences of bill shock.”

Some consumers may not fully understand the pricing information presented to make a more informed decision

4.67 Despite providing more detailed information to consumers than generic PCAs, we consider tariff-based PCAs may have a number of limitations that limit their effectiveness in addressing bill shock:

- Some consumers may not fully understand or be at risk of misinterpreting the pricing information presented due to the range of different service charge pricing structures that are permitted. As detailed in table 1, there are currently four alternative ways to structure the service charge and two of these may mean that the cost for the first minute of the call is different to the cost of each subsequent minute. By way of example, 118 118 and 118 247 both have the same charging structure – a per call rate and a per minute rate that applies after the first minute. However, in the illustrative PCAs that we have set out above, the charges are described differently, with the nominal amount given in the 118 118 PCA being lower than in the 118 247 announcement (£4.49 versus £5.50). As a result, it may not be immediately obvious to a caller comparing the two that the service charge for a call to 118 118, which lasts up to 1 minute, is £8.98 and therefore more expensive than an equivalent call to 118 247.
- Some consumers may underestimate the time they spend on the call and continue to experience bill shock.
- There are real differences in the ability of consumers to be able to use the information provided to calculate an approximate estimate of the likely cost of the call. According to a Government report, 1 in 4 UK adults has the numeracy skills expected of a 9 year old.¹⁶⁰ So while the PCA may be effective for some consumers, it may not be useful for others.
- If the scope of the PCA is limited to service charges alongside a message which informs the caller that there is an access charge to pay, callers would not be informed about the level of the access charge (as much as 55p/minute for some mobile operators) so the PCA would not provide full tariff information. However, adding information about the level of the access charge could potentially make the announcement even more complex for the consumer to understand.
- The provision of more detailed information is likely to extend the length of the call. Some consumers who value the speed of call completion may find PCAs frustrating and may be

¹⁵⁹ TNUK published response: September 2012

https://www.ofcom.org.uk/_data/assets/pdf_file/0027/42957/118.pdf

¹⁶⁰ 2011 *Skills for Life Report*: BIS. 24% of adults achieved Entry Level 2 or below in Numeracy (p.64) (=8.1 million had Entry Level 2 or below numeracy skills). Entry Level 2 is the national school curriculum equivalent for attainment at age 7-9. Adults with numeracy skills below Entry Level 3 may not be able to understand price labels on pre-packaged food or pay household bills (p.30).

deterred from making 118 calls next time.¹⁶¹ In addition, absent a regulatory solution, there is a risk that callers could be charged for the PCA, even if they opted not to proceed with the call. For example, assuming a tariff-based PCA for 118 118 lasts for 20 seconds, that would equate to a charge of £8.98 if the PCA were to be taken into account in calculating the cost of the call.¹⁶² This could heighten the risk of bill shock.

The effectiveness of generic and tariff based PCAs to address other types of harm

- 4.68 We also looked at how PCAs could help address issues with affordability and potential misuse.
- 4.69 Regardless of what variant of PCA is used, or how impactful the message is, an announcement won't by itself make the call more affordable. Moreover, given consumers tend not to shop around or require a number quickly, a requirement to provide service charge information at the start of the call is unlikely to induce callers to seek out more affordable options.
- 4.70 Some forms of PCA may be effective in reducing the risk of misuse. For example, an announcement may alert unsuspecting consumers to the fact that they are calling a 118 number, subject to higher costs. However, there still remains a risk that some consumers won't be able to understand the message and continue with the call.

Costs and implementation time estimates for using tariff based PCAs to address the harms identified

- 4.71 Our key consideration when assessing remedies is how effective they are likely to be in reducing bill shock. However, we also looked at the costs and timescales involved in implementing PCAs and whether these would be disproportionate relative to the benefits of implementing PCAs.
- 4.72 Previously commissioned research (Analysys Mason 2010 feasibility study on tariff information) suggests the costs of introducing PCAs can be significant. A tariff based PCA is likely to generate significant implementation costs.¹⁶³ TCPs who contributed to the Analysys Mason Report, quoted costs of £300,000 to £2 million per provider for a TCP based solution (where the announcement would provide details of the service charge, rather than the total cost of the call i.e. SC plus AC). We would highlight that these cost estimates were based on a wide specification that included PCAs for other non-geographic

¹⁶¹ Ofcom Research 2006 – Numbering Review

https://www.ofcom.org.uk/_data/assets/pdf_file/0022/54283/marketresearch.pdf

¹⁶² This assumes that the PCA is provided by the service provider/TCP and absent of a technical/regulatory solution that would prevent the caller from being subject to a service charge once the call is connected to the TCP/service provider.

¹⁶³ Paragraph 4.2.4: Analysys Mason Final Report for Ofcom: 5 October 2010, Feasibility of tariff information and billing measures for non-geographic calls. https://www.ofcom.org.uk/_data/assets/pdf_file/0029/72389/tariff-billing.pdf

call ranges, not just the 118 range.¹⁶⁴ The same report suggests that these PCAs could take up to 18-24 months to implement.

Overall view on PCAs as a remedy to harms identified

- 4.73 Given the available evidence and the reasoning set out above on the effectiveness of PCAs, we do not consider imposing a requirement for a PCA, generic or tariff-based, to be an effective remedy to the harms identified.
- 4.74 Whilst generic PCAs are relatively quick to implement, they do not carry enough information to fully inform consumers of the cost implications of calling a DQ service and may even deter others from doing so. While tariff based PCAs could provide more information to callers than is currently available, we are not persuaded that consumers would understand and be able to calculate the costs of a DQ call and thereby avoid bill shock. Although some forms of PCA may have some impact in relation to cases of potential misuse they are unlikely to fully address our concerns and will not address concerns we have around affordability. We have also taken account of the objections raised by TNUK about the drawbacks of PCAs.
- 4.75 Existing PSA guidance asks for on-call announcements to inform consumers of call connect costs. While this on-call announcement may provide some consumers, who are already on the call and will have already incurred charges, with some useful information on the cost of onward call connect minutes, we do not consider it to be sufficiently effective to protect consumers from the harms we have identified.
- 4.76 In light of the limitations to address the harm DQ users experience, our view is that PCAs will not be a sufficiently effective remedy to protect DQ users from bill shock and other harms.

Proposed remedy to address consumer harm

- 4.77 In summary, we have found that there is consumer harm arising from the use of DQ calls which warrants regulatory intervention and we are proposing to address this harm with a cap on the service charge for 118 calls of £3.10 including VAT per 90 seconds. We propose this cap is implemented 4 months after the date of the statement. We consider the structure of the cap will give DQ providers sufficient flexibility to set service charges. At this time, we are not persuaded that the cap will undermine cost recovery, and it does not raise any other concerns based on proportionality.
- 4.78 This proposal would be implemented by modifying the Numbering Plan. The text of the proposed modification is set out in the Notifications at Annex 10.¹⁶⁵ We set out our reasons for believing that this modification satisfies the legal tests in section 60(2) of the Act, our

¹⁶⁴ Paragraph 4.2.4: Analysys Mason Final Report.

¹⁶⁵ On 1 October 2018, a modification to the entry for 118 numbers in Part A of the Numbering Plan will come into force, reflecting the revised numbering of the General Conditions set by Ofcom on 19 September 2017 and coming into force on 1 October 2018. Accordingly, we are consulting on modifications to the current entry for 118 numbers in the Numbering Plan and to the equivalent entry in the Numbering Plan coming into force on 1 October 2018.

general duty in relation to telephone numbering in section 63 of the Act and our general duties in sections 3 and 4 of the Act in Annex 9.

Consultation question 2: Do you agree with our view that the proposed cap on the service charge for a call to a 118 number of £2.58 (ex VAT) per 90 seconds of the call is an effective and proportionate to remedy the harms identified?

Consultation question 3: Do you agree with our view that an overall implementation period of four months following Statement will be a sufficient time for providers to introduce the proposed cap?

Consultation question 4: Do you have any comments on the notifications at Annex 10 and the draft modification set out within them? Where you disagree with the proposed modification, please explain why.

Next Steps

- 4.79 We invite comments on the proposals in this document. The consultation runs for 10 weeks and the deadline for responses is 22 August 2018. Annex 1 provides further details of how to respond.
- 4.80 We aim to publish our conclusions before the end of 2018.

A1. Responding to this consultation

How to respond

- A1.2 Ofcom would like to receive views and comments on the issues raised in this document, by 5pm on **Wednesday 22 August 2018**.
- A1.3 You can download a response form from <https://www.ofcom.org.uk/consultations-and-statements/category-1/directory-enquiries-118-review>. You can return this by email or post to the address provided in the response form.
- A1.4 If your response is a large file, or has supporting charts, tables or other data, please email it to DirectoryEnquiriesReview@ofcom.org.uk, as an attachment in Microsoft Word format, together with the cover sheet (<https://www.ofcom.org.uk/consultations-and-statements/consultation-response-coversheet>). This email address is for this consultation only, and will not be valid after the review has been completed.
- A1.5 Responses may alternatively be posted to the address below, marked with the title of the consultation:
- John O’Keefe
Ofcom
Riverside House
2A Southwark Bridge Road
London SE1 9HA
- A1.6 We welcome responses in formats other than print, for example an audio recording or a British Sign Language video. To respond in BSL:
- Send us a recording of you signing your response. This should be no longer than 5 minutes. Suitable file formats are DVDs, wmv or QuickTime files. Or
 - Upload a video of you signing your response directly to YouTube (or another hosting site) and send us the link.
- A1.7 We will publish a transcript of any audio or video responses we receive (unless your response is confidential)
- A1.8 We do not need a paper copy of your response as well as an electronic version. We will acknowledge receipt if your response is submitted via the online web form, but not otherwise.
- A1.9 You do not have to answer all the questions in the consultation if you do not have a view; a short response on just one point is fine. We also welcome joint responses.
- A1.10 It would be helpful if your response could include direct answers to the questions asked in the consultation document. The questions are listed at Annex 4. It would also help if you could explain why you hold your views, and what you think the effect of Ofcom’s proposals would be.

- A1.11 If you want to discuss the issues and questions raised in this consultation, please contact John O’Keefe on 020 7981 3568, or by email to DirectoryEnquiriesReview@ofcom.org.uk.

Confidentiality

- A1.12 Consultations are more effective if we publish the responses before the consultation period closes. In particular, this can help people and organisations with limited resources or familiarity with the issues to respond in a more informed way. So, in the interests of transparency and good regulatory practice, and because we believe it is important that everyone who is interested in an issue can see other respondents’ views, we usually publish all responses on our website, www.ofcom.org.uk, as soon as we receive them.
- A1.13 If you think your response should be kept confidential, please specify which part(s) this applies to, and explain why. Please send any confidential sections as a separate annex. If you want your name, address, other contact details or job title to remain confidential, please provide them only in the cover sheet, so that we don’t have to edit your response.
- A1.14 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and try to respect it. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.
- A1.15 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom’s intellectual property rights are explained further at <https://www.ofcom.org.uk/about-ofcom/website/terms-of-use>.

Next steps

- A1.16 Following this consultation period, Ofcom plans to publish a statement in December 2018.
- A1.17 If you wish, you can register to receive mail updates alerting you to new Ofcom publications; for more details please see <https://www.ofcom.org.uk/about-ofcom/latest/email-updates>

Ofcom's consultation processes

- A1.18 Ofcom aims to make responding to a consultation as easy as possible. For more information, please see our consultation principles in Annex 2.
- A1.19 If you have any comments or suggestions on how we manage our consultations, please email us at DirectoryEnquiriesReview@ofcom.org.uk. We particularly welcome ideas on how Ofcom could more effectively seek the views of groups or individuals, such as small businesses and residential consumers, who are less likely to give their opinions through a formal consultation.
- A1.20 If you would like to discuss these issues, or Ofcom's consultation processes more generally, please contact Steve Gettings, Ofcom’s consultation champion:

Steve Gettings
Ofcom
Riverside House
2a Southwark Bridge Road
London SE1 9HA
Email: corporationsecretary@ofcom.org.uk

A2. Ofcom's consultation principles

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

Before the consultation

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

During the consultation

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

After the consultation

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

A3. Consultation coversheet

BASIC DETAILS

Consultation title: organisation realise

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

CONFIDENTIALITY

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

Nothing ☐

Name/contact details/job title ☐

Whole response ☐

Organisation ☐

Part of the response ☐

If there is no separate annex, which parts? _____

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

DECLARATION

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

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

Name

Signed (if hard copy)

A4. Consultation questions

A4.1 This Annex lists the questions that we are consulting on.

Consultation question 1: Do you agree with our assessment of harm?

Consultation question 2: Do you agree with our view that the proposed cap on the service charge for a call to a 118 number of £2.58 (ex VAT) per 90 seconds of the call is an effective and proportionate to remedy the harms identified?

Consultation question 3: Do you agree with our view that an overall implementation period of four months following Statement will be a sufficient time for providers to introduce the proposed cap?

Consultation question 4: Do you have any comments on the notifications at Annex 10 and the draft modification set out within them? Where you disagree with the proposed modification, please explain why.

A5. Complaints analysis

- A5.1 In this section we set out our analysis of DQ complaints received by:
- a) Ofcom;
 - b) The Phone-paid Services Authority (PSA)¹⁶⁶; and
 - c) DQ service providers (SPs).
- A5.2 In the next sections, we set out the trends we observe in the level and rate of DQ complaints and an in-depth analysis of the types of complaints received by Ofcom and the PSA.
- A5.3 However, we consider that generally consumers may be reluctant to complain (see discussion in paragraphs A5.34.). Furthermore, where DQ users do complain there is some qualitative evidence to suggest that they are more likely to complain to their CP than SP (see paragraphs A3.35.). This may be particularly true of complaints relating to high charges. Indeed, we have evidence from some CPs that DQ services are a major source of customer dissatisfaction (see paragraphs A5.38.).

Trend in complaints made to Ofcom and the PSA about DQ services

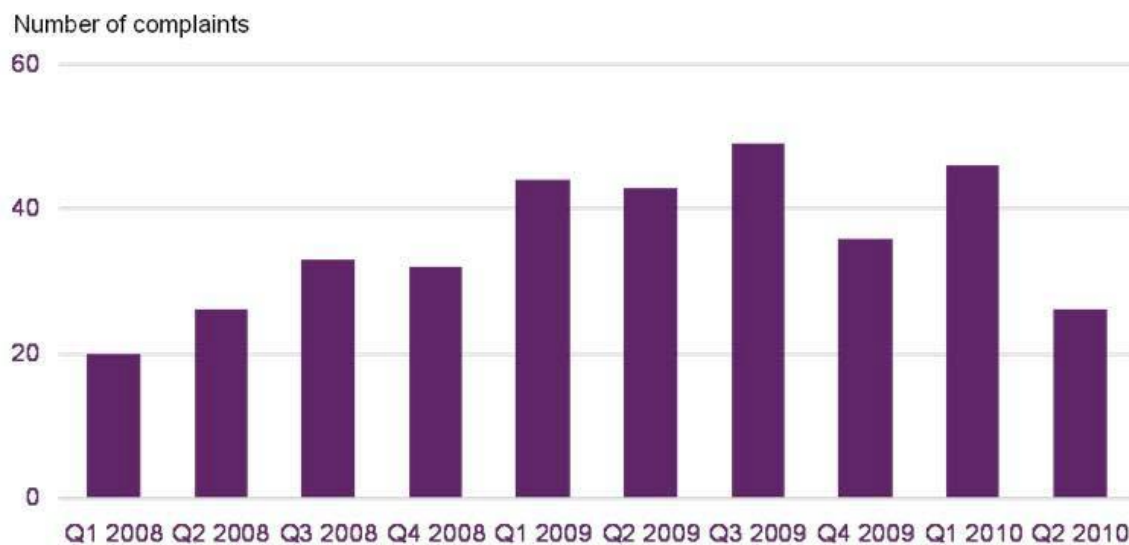
- A5.4 When we last reviewed the DQ sector we presented the level of complaints about DQ call charges received by Ofcom's contact centre on a quarterly basis between Q1 2008 – Q2 2010 (reproduced below in Figure 7). We said that we received "a steady rate of [complaint] calls of around 10 per month" and that "most of these calls relate to bill shock, where consumers are surprised about how much a call has cost them, and in many cases, this appears to be because they have asked for a call to be connected without knowing or being informed of the price."¹⁶⁷ Similarly, in our 2012 consultation we also said that "the complaints data from Ofcom's Advisory Team ("OAT") shows that there were a total of 86 complaints relating to the charges of directory enquiry services".¹⁶⁸

¹⁶⁶ Formerly known as PhonepayPlus (PPP)

¹⁶⁷ See paragraph A7.415 and Figure A7.17, Ofcom, December 2010, Consultation, Simplifying Non Geographic Numbers https://www.ofcom.org.uk/_data/assets/pdf_file/0020/63380/non-geo.pdf

¹⁶⁸ Between June 2011 and June 2012. See paragraph 4.52, Ofcom, July 2012, Service Charge Caps for 09 and 118 Services Consultation https://www.ofcom.org.uk/_data/assets/pdf_file/0031/47767/condoc.pdf

Figure 7: Complaints made to Ofcom regarding DQ call charges– Figure reproduced from Ofcom December 2010 consultation¹⁶⁹

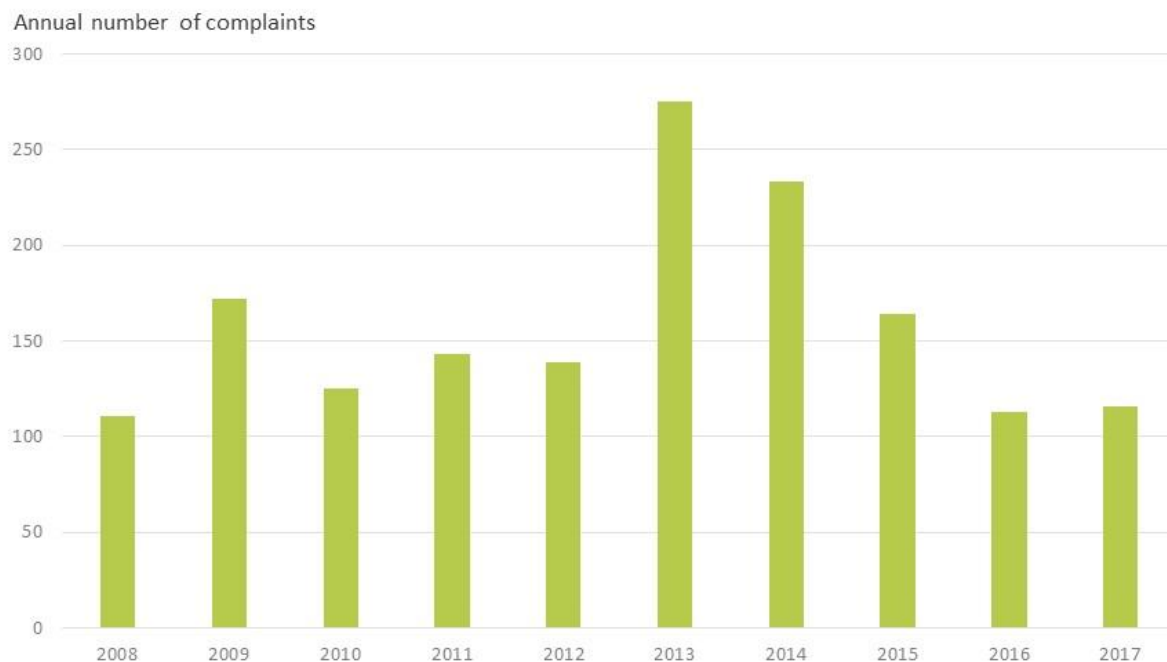


Source: Figure A7.17 Ofcom, December 2010, Consultation, Simplifying Non Geographic Numbers
https://www.ofcom.org.uk/_data/assets/pdf_file/0020/63380/non-geo.pdf.

A5.5 We currently receive a similar level of complaints about DQ call charges to those reported in our non-geographic numbering review; around 10 complaints per month. However, call volumes have declined significantly, therefore the rate of complaints as a proportion of call volumes has increased accordingly – we estimate around a six-fold increase in the rate of complaints (see figure 8 below).

¹⁶⁹ Although the December 2010 heading to this chart did not explicitly state that it was in relation to complaints about the charges of DQ services only, when we discussed the number of complaints elsewhere in the review we were clear that these related to the charges of directory enquiries. For example, we said that the “the complaints data from Ofcom’s Advisory Team (“OAT”) shows that there were a total of 86 complaints relating to the charges of directory enquiry services and only 36 relating to 09 numbers between June 2011 – June 2012”.

Figure 8: Complaints made to Ofcom regarding DQ call charges



Source: Ofcom contact centre

Figure 9: Complaints made to Ofcom regarding DQ call charges ¹⁷⁰

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Annual number of complaints	111	172	125	143	139	275	233	164	113	116
Average number of complaints per month	9	14	10	12	12	23	19	14	9	10
Number of complaints per million calls	-	1.91	-	-	-	-	-	-	11.31	-

Source: Ofcom contact centre

A5.6 As illustrated in Figure 8, the number of complaints received by Ofcom about DQ call charges peaked in 2013 and remained relatively high in 2014. Complaints have since gone back down to similar level as previous years. We have been unable to determine the

¹⁷⁰ The rate of complaints (over call volumes) is based on originating call volumes (minutes) submitted by CPs for 2009 via S135s in the last review and call volumes (number of calls) submitted by CPs for 2016 via S135s in this review. We have converted 2009 call minutes into number of calls by assuming that the average call length was the same as it is in 2016 (approx. 90 seconds). We note that average call lengths have not varied significantly over the period requested Q2 2015-Q2 2017. However, even if we assumed the average call length in 2009 was 50% longer than the average call length of 90 seconds we would still observe around 295% increase in the rate of complaints i.e. almost four-fold increase.

reason for the increase in complaints in 2013/14, but list some possible contributing factors below:

- a) Based on an analysis of website archives we are confident that TNUK increased the price for calling 118 118 between 28th January 2013 and 4th February 2013. The price of a one-minute call to 118 118 increased from £1.97 to £2.58. This price increase is in quarter one 2013 which is the same quarter in which we first observe an increase in the level of complaints about DQ call charges.¹⁷¹
- b) TNUK ran a promotion of its 118 118 service on London Buses between 27 January 2014 and 13 February 2014. The PSA deemed, in its investigation in 2014, that the pricing information in these promotions was not sufficiently prominent.¹⁷² The PSA also opened investigations into BT after receiving bill shock complaints from users in 2013, which specifically mentioned that pricing information was not stated in promotional material.¹⁷³ These advertising campaigns and the subsequent investigations may have also increased complaints.
- c) Ofcom's review of non-geographic numbers, including DQ, may have raised awareness of Ofcom as the regulator of DQ services. We published various consultations in 2012-2013 with final statement published in December 2013. Our review received some media attention, including from the BBC.¹⁷⁴
- d) The BBC conducted a mystery shopping exercise of five DQ services in 2013 and reported in May 2013 that the premium line regulator (PSA, formerly PhonePayPlus) was to investigate BT's DQ service on the back of this.¹⁷⁵ The BBC report lists the prices and average call length for calls to all five DQs.

¹⁷¹ We also know that BT increased the price for calling 118500 between Q2 2012 and Q2 2013, however we don't know precisely when this occurred because the website archive information is limited. The price of a one minute call to 118 500 increased from £1.98 to £2.61.

¹⁷² <https://psauthority.org.uk/-/media/Files/PhonepayPlus/Adjudications/27840-Tribunal-Minutes1.ashx?la=en&hash=DB36227E1A35C51D3FF82D99E97F3A684F6841E1>

¹⁷³ <https://psauthority.org.uk/-/media/Files/PhonepayPlus/Adjudications/27976-Tribunal-Minutes.ashx?la=en&hash=2C1C1B62B92948CC407ECB96F7A8140B30F70F2C>

¹⁷⁴ <http://www.bbc.co.uk/news/business-22540999>

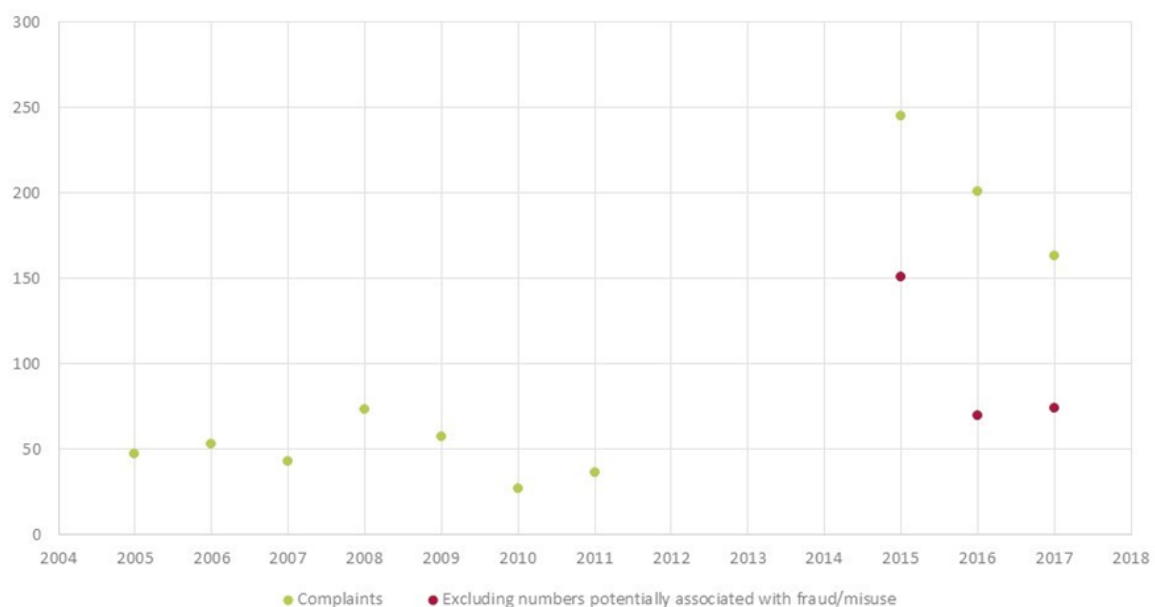
¹⁷⁵ The BBC requested the same number from five different 118 services 10 times each and measured the average length of call. The companies included in the mystery shopping exercise were The Number (118 118), BT (118 500), Maureen (118 212), 192.com Ltd (118 119), and Yellow Pages (118 247). BBC report available here:

<http://www.bbc.co.uk/news/business-22659453>

e) In our last review we also referenced the number of complaints the PSA had received between 2005 and 2011.^{176 177} The total number of complaints received by the PSA in recent years is higher. This increase appears to be driven by complaints about misuse/fraud on the range. Removing complaints regarding 118 numbers that are associated with fraud/misuse activity reduces the level of complaints to similar levels to those reported in our last review (see Figure 10 below).^{178 179}

A5.7 In our last review we also referenced the number of complaints the PSA had received between 2005 and 2011.^{180 181} The total number of complaints received by the PSA in recent years is higher. This increase appears to be driven by complaints about misuse/fraud on the range. Removing complaints regarding 118 numbers that are associated with fraud/misuse activity reduces the level of complaints to similar levels to those reported in our last review (see Figure 10 below).^{182 183}

Figure 10: Annual number of all complaints made to the PSA regarding DQ



Source: 2005-2011 complaints data is from the data reported by PPP in our previous review. PSA provided complaints for the period 1 April 2015- 31 December 2017.

¹⁷⁶ The PSA was formerly known as PhonepayPlus (PPP).

¹⁷⁷ Ofcom, July 2012, Service Charge Caps for 09 and 118 Services, Figure 4.1 <https://www.ofcom.org.uk/consultations-and-statements/category-2/service-charge-caps>

¹⁷⁸ Complaints about fraud/misuse are likely to have been small or non-existent in the earlier period because we reported in our review that there was no evidence of fraud/misuse on the DQ range. April 2013 Policy position, "Part B" https://www.ofcom.org.uk/data/assets/pdf_file/0031/47767/condoc.pdf

¹⁷⁹ The PSA has told us that complaint levels have recently fallen back to the levels experienced between 2005 and 2011.

¹⁸⁰ The PSA was formerly known as PhonepayPlus (PPP).

¹⁸¹ Ofcom, July 2012, Service Charge Caps for 09 and 118 Services, Figure 4.1 <https://www.ofcom.org.uk/consultations-and-statements/category-2/service-charge-caps>

¹⁸² Complaints about fraud/misuse are likely to have been small or non-existent in the earlier period because we reported in our review that there was no evidence of fraud/misuse on the DQ range. April 2013 Policy position, "Part B" https://www.ofcom.org.uk/data/assets/pdf_file/0031/47767/condoc.pdf

¹⁸³ The PSA has told us that complaint levels have recently fallen back to the levels experienced between 2005 and 2011.

Complaint categories

Methodology

- A5.8 We conducted an interrogation of all DQ complaints' descriptions as recorded in Ofcom and PSA complaints databases to understand the nature of the complaint being made, for example whether it was about bill shock or quality of service, etc.¹⁸⁴
- A5.9 We analysed complaints received by Ofcom in respect of two periods:
- a) October 2010-September 2012 (inclusive) as an indication of the types of complaints received during our last review;
 - b) October 2015-September 2017 (inclusive) to capture the types of complaints received more recently, including since the unbundling of charges (July 2015).
- A5.10 The PSA provided us with the complaints they have received in recent years and we conducted a similar analysis of their complaints for the period June 2016 to May 2017 (inclusive).
- A5.11 In the following sub-sections, we outline the results from this analysis. However, it is important to note that this information is not recorded systematically and relies instead on the complainant mentioning these factors and it being recorded in the complaint description.
- A5.12 We have categorised complaints into the following categories based on the information recorded in the complaints descriptions.¹⁸⁵ The complaint categories have been defined as follows:
- a) **Bill shock:** complaints where the consumer claims to have been shocked/surprised at how high the charges are on their bill. This also includes cases where consumers do not necessarily mention that they are shocked/surprised but say they didn't know how much they would be charged; didn't know it was a premium rate number; didn't hear any information about pricing; given incorrect pricing information; did hear pricing information but didn't understand the charges. It also includes complaints about high charges of DQ services where the consumer also refers to his/her bill, but does not explicitly state that he/she was shocked or didn't know the price. This is likely to be a bill shock incident because the consumer has referred to the high charges on their bill.

¹⁸⁴ In addition to complaints about DQ call charges we included complaints that have been recorded in the Ofcom complaints database as DQ complaints about, information provided, customer services, complaints handling and "different issues".

¹⁸⁵ In cases where the complaint description mentions more than one issue we present the result for what we deemed to be the primary reason for the complaint. The majority of complaints were about a single issue.

- b) **High charges (general):** general complaints about DQ prices being excessive, but without any mention of a specific experience, e.g. making a DQ call or referring to their bill, e.g. *"The consumer wanted to register a complaint about the general cost of directory enquiry services. He remembers a time when they were a lot cheaper. He was not specific about a particular company."*¹⁸⁶
- c) **Transparency:** complaints where the primary concern is the lack of transparency around pricing information given on the call or in the marketing of the DQ service, e.g. *"Consumer reports he called 118-XXX [anonymised] to request a number. He was given the number and asked if he wanted them to connect the call and the charge of £1.16 per minute was mumbled to him..."*¹⁸⁷
- d) **Quality of Service (QS):** includes complaints where the primary reason for the complaint is that the consumer was given the wrong number, connected to the wrong number, held on the phone for a long time, the number requested was not available.
- e) **Fraud:** We have categorised the following types of complaints under misuse/fraudulent activity:
 - i) Advised to call (ATC) – attempted to contact a company and advised to call 118 number.
 - ii) Automatically transferred to DQ (Auto) – consumer claims to have called another number or a friend and DQ intercepted call or call was transferred to a DQ.
 - iii) Fault on the line – dialled a company or friend and received a message saying there is a fault on the line and should call 118 number.
 - iv) Missed call – consumer had missed call and when they dialled the number they received message saying they should call 118 number, e.g. *"sorry calls not being connected. Sorry for inconvenience, please dial 118-XXX [anonymised]"*.
 - v) Cites a DQ number/company that has been mentioned in other complaints about misuse/fraud.
 - vi) Misdialled: misdialled the number when calling a company, e.g. water company and told via an IVR to call 118 number.
 - vii) Out of service: dialled a company or friend and received a message via an IVR saying the number is out of service call 118 XXX.
- f) **Not dialled:** Complaints where the complainant claims that he/she has been billed for DQ calls they have not made or do not remember dialling. Sometimes these are linked to companies/numbers that have been referenced in the complaints that we have identified as fraud/misuse complaints.

¹⁸⁶ Complaint received by Ofcom, September 2016.

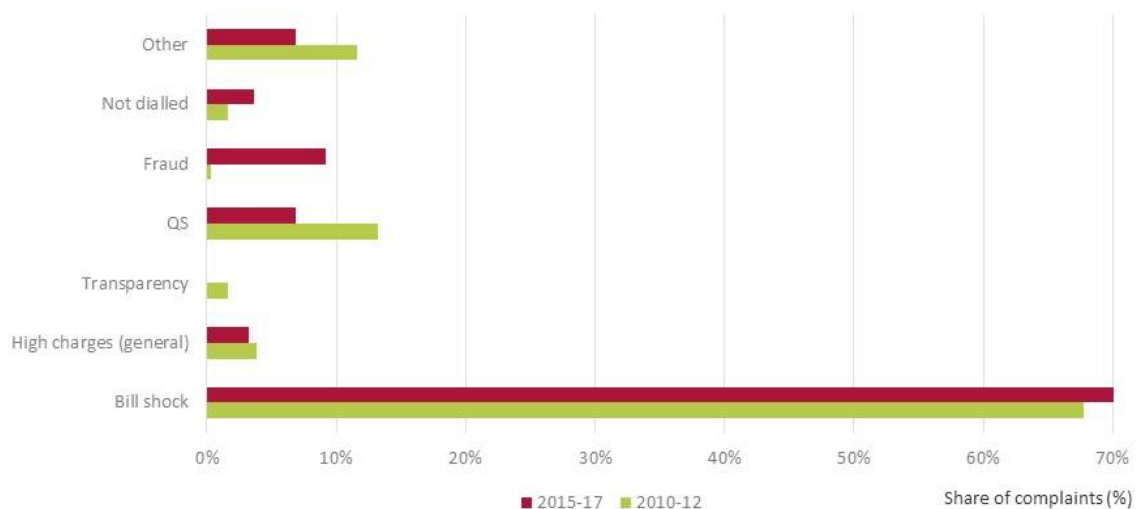
¹⁸⁷ Complaint received by Ofcom, October 2010.

- g) **Other:** This category combines other categories of complaints where we only received a handful of complaints about this issue. For example, it includes cases where the consumer says that he/she inadvertently called the 118 number.

Ofcom complaints

A5.13 The majority of DQ complaints received by Ofcom are related to bill shock (70%) in the period 2015-2017. Relative to 2010-2012, we also have evidence of fraud/misuse on the range, which is supported by evidence collated from the PSA (see paragraphs A5.14-A5.15 below). Specifically, Ofcom only received one complaint that could be categorised as fraud/misuse on the DQ range in 2010-12, whereas we have received a number of fraud/misuse complaints since 2015. Furthermore, the majority of complaints received by the PSA in the period June 2016 – May 2017 (inclusive) are related to fraud/misuse.

Figure 11: Overview of Ofcom DQ complaints by category of complaint



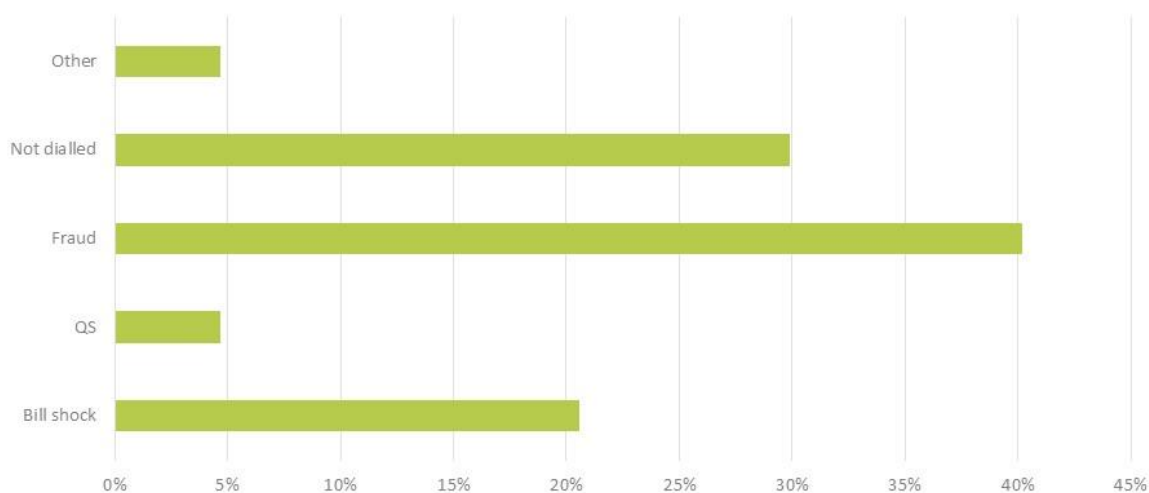
Source: All DQ complaints (362) received by Ofcom between October 2010-September 2012 (inclusive) and all DQ complaints (217) received by Ofcom between October 2015 – September 2017 (inclusive)

PSA complaints

A5.14 In contrast to Ofcom complaints data, a relatively small share of complaints received by the PSA were related to bill shock (over 20%), whilst over 40% of the complaints were related to fraud/misuse (see Figure 12 below).¹⁸⁸

¹⁸⁸ A large proportion (51%) of PSA complaints had to be categorised as “Unknown” because a complaint description was not included in the complaints record. We understand from the PSA that this is mainly due to consumers complaining via the PSA’s online complaint form and not including a description of the complaint. The percentages quoted in this chart are calculated excluding ‘unknown’ complaints.

Figure 12: Overview of PSA DQ complaint categories



Source: All DQ complaints (107) received by the PSA between June 2016-May 2017 (inclusive). This excludes complaints categorised as 'unknown' (111).

A5.15 Fraud/misuse complaints are reported in respect of a handful of DQ numbers, with some of these numbers linked to the same companies.

Detailed analysis of bill shock complaints

A5.16 We have analysed in detail the Ofcom complaints which relate to bill shock to understand:

- The price levels at which consumers were reporting bill shock;
- Whether consumers were complaining about short calls or onward connected calls (based on the description provided including whether they specifically mentioned use of onward call connect and/or the duration of the call).

A5.17 The results of this analysis are presented at paragraph A5.20 to A5.24 below.

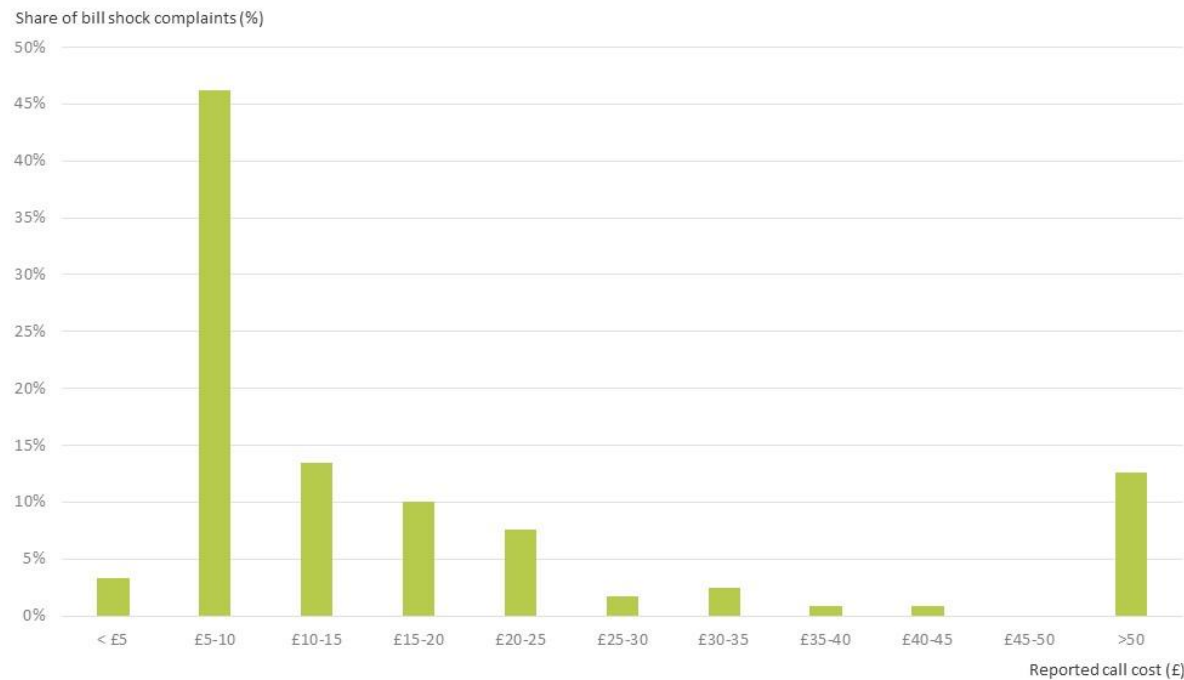
A5.18 Ofcom received a total of 152 bill shock complaints during October 2015 - September 2017 (inclusive). This is lower than the absolute number of bill shock complaints received during the period October 2010-September 2012 (inclusive).¹⁸⁹ However given the steep decline in call volumes (see Figure 1), the rate of bill shock complaints (complaints/calls) has increased significantly (estimated five-fold increase).¹⁹⁰

¹⁸⁹ Ofcom received 246 bill shock complaints between October 2011 and September 2012 (inclusive).

¹⁹⁰ The rate of increase in bill shock complaints is based on the number of bill shock complaints received in 2011 compared with 2016 (123 and 78 respectively) and call volumes in 2011 and 2016. We use DQ call volume data (originating data collected via S135s during current review) to calculate the rate of complaints in 2016. We chose to compare complaints received by Ofcom during 2016 with those received in 2011 because i) we have conducted an in-depth analysis of complaints in 2011 therefore we have an estimate of the number of complaints related to bill shock; and ii) we have DQ volume data for 2011 (terminating volumes collected via S135s during the last review). We collected terminating minutes (millions) in the previous review and have converted these to call volumes (number of calls) by dividing total terminating minutes by the average (mean) call length in 2016 (1.59 minutes as derived from CP call originating data). We note that average call lengths have not varied significantly over the period requested Q2 2015-Q2 2017. Even if we assume average call length 50% longer in 2011 than they are now we still find that bill shock complaints have increased three-fold.

A5.19 Further analysis shows that where complainants had experienced bill shock, 46% had reported bill shock on calls costing between £5-10. The distribution of bill shock per call amounts is shown in Figure 13 below.

Figure 13: Distribution of bill shock complaints by per call cost (£) as reported in complaints received by Ofcom about DQ services



Source: Bill shock complaints received by Ofcom between October 2015 – September 2017 (inclusive) where the complainant has referred to the cost of the call/s (119 complaints).

Bill shock onward connected calls

A5.20 In our 2010-13 non-geographic numbering review, we stated that the majority of bill shock complaints received by Ofcom were related to onward connected calls. We continue to receive complaints about onward connected calls however there has been an evident increase in the level of bill shock complaints related to short calls. In the period October 2015 and September 2017 (inclusive), we received 17 bill shock complaints which specifically mentioned use of onward call connect (11% of all bill shock complaints). This is lower than the number of complaints that specifically mentioned onward call connect during the last review of 81 complaints (33% of all bill shock complaints).¹⁹¹ However, given the decline in call volumes (and assuming call connect calls have declined in line with the decline across all calls), on a per call basis complaints about call connect have increased.

A5.21 Complainants are not specifically asked if they used the call connect service, so we rely on complainants providing this information spontaneously to identify bill shock complaints

¹⁹¹ Based on Ofcom complaints received between October 2010 – September 2012 (inclusive).

about call connect. Therefore, the figures above may understate the number of bill shock complaints received about calls that have been onward connected.

A5.22 We have therefore estimated the number of complaints about onward connected calls by looking at a combination of the call length and call cost. We assume that all calls lasting longer than two minutes are onward connected.¹⁹² Taking the two most popular DQ services, a two-minute call to 118 118 (TNUK) cost between £8.73 and £13.47 during the period October 2015 – September 2017 (inclusive), whilst a two-minute call to 118 500 (BT) cost between £6.77 and £8.25. We have therefore assumed that a complaint about 118 500 above £7 and a complaint about 118 118 above £9 involves an onward connected call, unless the consumer has stated that the call duration was equal to or less than 2 minutes or that they were not connected.

A5.23 Based on this, we estimate that 33% of bill shock complaints concerned onward connected calls. Whilst this is a minority of all bill shock complaints, it is in line with the rate of onward call connection.¹⁹³ The reported per call cost for these calls is between £7 and £200, with over half (57%) of these complaints relating to calls costing £20 or more (see table below for the distribution).

Figure 14: Distribution of complaints that were onward connected (estimated) made to Ofcom and the cost of the call.

Per call cost (£)	Number of complaints
7-10	5
10-20	16
20-30	7
30-40	5
50-60	2
60-70	8
70-80	2
80-90	1
130-140	1
190-200	1

Source: Ofcom contact centre

¹⁹² In our mystery shopping exercise we found that calls that were not onward connected lasted an average of one minute. However, in our mystery shopping exercise we chose numbers that were easy to pronounce and spell and those that we considered wouldn't require follow-up/clarification questions, therefore the typical call duration for calls that are not onward connected is likely to be longer than one minute.

¹⁹³ 30% of DQ users used onward connect on their last call according to our Kantar 2017 quantitative research.

- A5.24 Of those that did mention use of onward call connect, four of the complaints reported not receiving any call connect pricing information. Our mystery shopping results suggest that 96% of relevant calls reported call connect pricing information being given. The rest of the complaints were general complaints about charges being high.

Affordability – examples from complaints

- A5.25 Among the complaints we have received, we have seen examples of complainants who have faced affordability issues. For example, one complainant noted that her fixed line service had been restricted due to non-payment of bill after her son with mental health issues made several DQ calls, whilst another elderly consumer reported having to delay payment of his/her bill (see Box 2 below).

Box 2: Extracts from Ofcom and PSA complaints data which indicate complainants experiencing affordability issues

“...I was on my phone [PHONE NUMBER REDACTED] for 1 minute 10 secs according to my bill. I realise I will be charged 2 minutes for the call. I did not get put through to the number and my mobile phone charge for this single call was **£10.995. I have a contract mobile phone service at £9 per month to keep costs down and I cannot afford ridiculous charges like this from your company....**” Ofcom complaint, June 2016

“consumer is unhappy that his [*sic*] been billed £5.61 for a 53 sec call. His wife who made the call had to call the service back because she didn't get the information she wanted and charged a further £5.61 (total £11.22) **consumer is a pensioner and can't afford charge.** Wife unaware of premium rate charge for service” PSA complaint, January 2017

“consumer is elderly and she's very upset about £400 bill can't recall how service was promoted **receives a pension financial hardship bill of £400**” PSA complaint

“The consumer received an invoice for around £47.00 and the SP said it was for calls to 118-XXX [*anonymised*]. The consumer said he made a call to 118 -XXX [*anonymised*] and for a two minute call was charged around £12.00. The consumer said he is a **pensioner and cannot afford to pay that cost**” Ofcom complaint, July 2016

“elderly consumer billed £129.63 for a 15min call to 118-XXX [*anonymised*] concerned no pricing was given on call connection phone provider has agreed to defer bill until 10/06/17” PSA complaint, May 2017

“The consumer has fixed line, broadband and tv with [X]. The consumer advised that their fixed line has a restriction due to a non- payment of the bill. The consumer advised the reason why the bill is so high is due to her son who has mental health issues made 5 calls to a 118 number and was not aware of the charges that would be incurred. The consumer advised that [X] will not lift the restriction and look into the issue with the charges for the 118 calls made until the bill has been paid.” Ofcom complaint, January 2017

Vulnerable consumers and situations – examples from complaints

- A5.26 The complaint descriptions provide examples that some consumers are using DQ services, including the onward call connect service, when in vulnerable situations (see Box 3 below).

Box 3: Extracts from Ofcom complaints where consumers may have been in vulnerable situations when using DQ services (source: Ofcom DQ complaints between October 2015 and September 2017)

“The consumer states that his wife called 118-XXX [anonymised] for **Bromley council emergency** response, as there was an emergency with her mother and she needed to speak to her carers. She states that she was provided the number and connected by 118 XXX [anonymised] and the call lasted for approximately 17 minutes. He states that the next day he received a call from his communications provider [anonymised] advising that there was a £65 charge on his bill for the call to 118 XXX [anonymised]]. He states that he is unhappy at the cost of the call and after raising this he has been offered a £40 goodwill gesture to partially refund the call but the consumer still feels that these charges are excessive.”

“The consumer called to make a complaint about 118 XXX [anonymised]. The consumer advised his wife dialled 118-XXX [anonymised] to get a number for [X]their communications provider [anonymised] to report her **mobile phone lost**. The consumer advised she agreed to be transferred through to [X]the CP [anonymised] by the 118-XXX [anonymised] service and has been charged £125 by [X] for two calls. The consumer is not happy about the amount he has been charged for these calls and cannot believe they are allowed to charge £5 per minute.”

“Last month some point, consumer had to contact the **Mental Health Crisis Team** but didn't have their number, so he contacted 118-XXX [anonymised]. Consumer agreed to have the call connected by 118-XXX [anonymised] unaware that he will be charged at a premium rate for the entire duration of that call. Consumer only found this out after receiving a bill of £95 from [... X] where they have charged him approximately £65 for that call. Consumer is extremely unhappy that 118-XXX [anonymised] did not inform him he was calling a premium rate number and he is also unhappy with [... X] rates against that number. [... X] initially offered a credit of £32 against that call charge, which he refused so they increased the credit amount to £50, which he has accepted. Consumer wanted the issue to be logged as a complaint and seeks advice on a way forward.”

“The consumer said her husband contacted 118-XXX [anonymised] to get a telephone number for **Alcoholics Anonymous**. The CP offered to transfer the call to the number and the consumer's husband accepted and has received an invoice for around £38.00. The consumer is not sure if 118-XXX [anonymised] made it clear to the consumer's husband, on how much the cost of the call would be.”

A5.27 We also have six examples of consumers calling in an emergency and ten examples of consumers mentioning that they have no internet access, these included complaints from consumers that generally do not have internet access and therefore do not have a free alternative to the DQ service and those that did not have internet access at the time of the call (extracts from some of these complaints are provided in Box 4 below).

Box 4: Extracts from complaints where consumers may have been in an emergency and/or have no internet access (source: Ofcom DQ complaints between October 2015 and September 2017)

“I recently had a flat tyre whilst on holiday in the Lake District. Due to a lack of signal, I called 118-XXX [anonymised] to find out where the nearest tyre company was. I made two calls to 118-XXX [anonymised] due to the first tyre place not having what I required in stock. I have just received my phone bill and it was significantly higher than usual, upon looking through the bill I found the 118-XXX [anonymised] calls were: £13.472 duration 2m 19s £21.311 duration 4m 11s. I had no idea the costs for using this service would be this high, otherwise I would have hung up. Nearly £35 for two phone numbers given with 6m 30s of call time seems unacceptably high.” Ofcom complaint, July 2017

“due to an Emergency, I let my neighbour/friend use the phone. I am not disputing that the calls were made, and due to it being an emergency didn't check the price. I have just received the bill and have been charged over £44 for 11 mins /4 calls. (Why she had to make 4 calls I am not sure.) I am absolutely disgusted that [anonymised] are allowed to charge £2.75 just for the privilege of them answering your call, and a further £2.75 per min - plus another 'access' charge which [anonymised] were unable to explain but said 'it was right'! It is outrageous. Still not whole story as it is NOT MENTIONED IN recent [anonymised] phone book they also charge £2.75 per minute ON TOP of call charge if they connect you. I am sure that you know all this, as on the internet it mentions OFFCOM looking into this in 2013.Charges have gone up even more since then. I phoned [anonymised] and got nowhere, and have been charged. So effectively to find out a number we now have to pay a minimum of £5, plus call charges, plus phone rental. I don't think anyone should have to pay this but having been a [anonymised] customer for at least ten years, and now pay £18 just for phone rental charges I feel justified being so angry about it.” Ofcom complaint, October 2015

“internet down. Phone [anonymised] to get phone number of europasat. He couldn't find this company. Took over 3 minutes and told me couldn't get a number. later when internet back on I googled it and there it was. My mother was charged just under 12 pounds for this non service. This is a total rip off.” Ofcom complaint, July 2016

“The consumer has received a bill from [X] which includes charges of £66.39 for calls made to directory enquiries, 118-XXX [anonymised]. The consumer states he was given no warning about the costs per minutes. He regards the charges as outrageous and exploitative. He asks that Ofcom uses its powers to reduce these excessive sums. He feels it is unfair that users with access to the internet can obtain numbers for free.” Ofcom complaint, May 2017

A5.28 When consumers make a complaint, we do not ask their age or whether they have disabilities, therefore we cannot accurately estimate the number of complaints from the vulnerable/elderly. Nonetheless some consumers voluntarily provide this information and this is recorded in the complaints description. From this we find that at least 13 of the complaints Ofcom received between October 2015 – September 2017 are from consumers

with disabilities and/or mental health issues e.g. dementia; and 20 are from elderly consumers.

Complaints received by DQ Service Providers

- A5.29 In this section we present our analysis of complaints received by SPs. We collected data on complaints received by SPs in the period Q3 2015 (immediately after the unbundling) to Q2 2017 (inclusive). This data was collected from TNUK, BT, Maureen and Yell.
- A5.30 The absolute number of complaints is falling for all SPs. TNUK is the largest DQ provider in the UK and receives the highest number of complaints both in absolute terms and as a proportion of call volumes.

Figure 15: Number of complaints received by SPs in Q3 2015 and Q2 2017

[X]

Source: information requested from service providers formally by Ofcom¹⁹⁴

- A5.31 According to the data provided, SPs are most likely to receive complaints about number accuracy rather than costs.
- A5.32 The trend in the rate of complaints as a proportion of call volumes is mixed. We observe an increase in complaints as a proportion of call volumes in this period (Q2 2017 relative to Q3 2015) for TNUK (118 118) from 0.38% to 0.43%, an increase of 13%. The increase in complaint rates for TNUK is mainly associated with complaints about aspects of call cost, length and price information. Complaints of this type as a proportion of call volumes have increased from 0.061% to 0.077% in this period, an increase of 27%. However, we observe a decrease in the rate of complaints from 0.139% in Q3 2015 to 0.116% in Q2 2017 for BT (118500) of 16%.¹⁹⁵
- A5.33 The trend in the rate of complaints is mixed and where we see increases in complaints it is much lower than those stated above in relation to Ofcom complaints data. This may be because we only collected complaints for a relatively short period of time and prices had already increased substantially before Q3 2015 (see Section 2). As noted above, we consider that DQ users that wish to make a complaint may be reluctant to call the 118 number for fear that they will incur further high charges, this is likely to be of greater concern when prices are higher, i.e. in the more recent period.

¹⁹⁴ Maureen's overall call levels are low.

¹⁹⁵ We do not know what has driven the decline in the rate of complaints received by Ofcom because BT was only able to breakdown total complaints in Q2 2017 by complaint category.

Limitations of complaints analysis

A5.34 We recognise that complaints analysis is limited in its ability to capture all instances of consumer harm given that consumers may generally be reluctant to complain (see qualitative evidence in Box 5 below).

Box 5: Qualitative evidence of consumers' reluctance to make a formal complaint ¹⁹⁶

None of the ten qualitative interview respondents made a complaint to the SP or to the regulators. One respondent mentioned that he did not ring the 118 telephone service for fear of facing more charges whilst making the call.

"I'm not one to make a complaint. I don't do that." Female, Age 71-75

"I was disgusted I rang 02 and asked how come you've charged me so much to call 118. Their reply was that 118 had charged them £25... I said I don't think so, just to get a number? I wasn't on the phone for more than 2 minutes. I refused to pay it. I said I'm not paying that. So, they (02) cut me off.... they did. I was fuming over it. I'm with '3' now...I wouldn't ring them [the SP] to complain in case I got charged another £25... I wouldn't even know an address of who to send it [complaint] to." Male, Age 56-60 years

"It never entered our heads to complain." Female, Age 61-65

A5.35 Where DQ users do complain there is some qualitative evidence to suggest that they are more likely to complain to their CP than SP (see Box 6 below). This may be particularly true of complaints relating to high charges given that:

- a) Consumers are informed of the DQ call charges when they receive their bill from their CP and are likely to have ready access to their CP's customer service/complaints line, e.g. on their bill;
- b) Consumers may not understand that the service charge is levied by the DQ service provider because they lack awareness of the difference between access and service charges (see Box 6 below);
- c) Consumers may consider that their CP has a responsibility to inform and warn them of high prices (see Box 6 below);
- d) Consumers may not have easy access to the DQ service provider's customer service/complaints line and/or may be reluctant to call the 118 number again for fear that they will be charged a second time (see Box 5).¹⁹⁷

A5.36 Furthermore, we consider that complaints to Ofcom and the PSA may be low due to lack of awareness that Ofcom also regulates DQ service providers and/or they may have low awareness of the PSA.

¹⁹⁶ Kantar in-depth interviews, Kantar quantitative survey (2017). Slides 63-75

¹⁹⁷ Indeed, we have received some complaints from users that have had difficulties accessing customer service lines and have had to call the 118 number to complain and as a result of doing so have been charged a high price for these complaints.

Box 6: Extracts from Ofcom and PSA complaints descriptions, indicating that DQ users are likely to complain to their CP and may have difficulty when complaining to the DQ service provider

“When it appeared on the [X] bill, there was no breakdown of the charges on the itemised statement...”

“She states that on the back of her bill it advises charges for calls to 0845,087,09 and 118 numbers as 7.5p per minute. She states that she doesn't use the internet and so had to make some calls to directory enquiries and so dialled a 118 number assuming the call would be charged at 7.5p per minute. She states that her bill has now come through she was charged a total of approximately £50. She states that when she raised the issue with [X] she was advised that the charges were from a third party that she had called but she was unaware that there would be additional charges to those mentioned on the bill.”

“Consumer is calling on behalf of a vulnerable individual who has been using the directory enquiry services of 118-XXX [anonymised] and had subsequently been receiving excessive charges on their bill. He wanted to contact them, but had difficulty finding their contact details.”

“rang 118-XXX [anonymised] on 1st June at 5.25pm FROM A LANDLINE, telling the operator IMMEDIATELY that I was *not* ringing for Directory Enquiries I was ringing to speak with a complaints department/ customer service department. Despite that, they did not give me a 'normal' number to phone, they instead put me through to someone else who basically told me that they would not do anything about the mobile charge & that mobiles are charged at £7 per minute (hence the £15 charge). I put it down to experience, 'wrote off' the £15, and vowed never to ring 118-XXX [anonymised] again from my mobile. But I was HORRIFIED today, to discover that the call I had made on 1st June to complain about rip-off charges WAS ALSO CHARGED AT A RIP OFF RATE (DESPITE MY HAVING MADE IT CLEAR IT WAS NOT ABOUT A DIRECTORY ENQUIRY) AND I HAD A LANDLINE BILL OF £26 FOR THIS 1ST JUNE CALL. Today I reported that to trading standards & and they gave me several links and phone numbers which they suggest might be phoned to speak with [anonymised] customer service/complaints department, instead of having to ring 118-XXX [anonymised] again. BUT I'VE SPENT ALL AFTERNOON GOING ROUND IN CIRCLES with every number I rang or link I looked up being ONLY FOR BUSINESSES THAT ARE ADVERTISING WITH [anonymised], NOT FOR CONSUMERS.”

Complaints to CPs

- A5.37 Several major CPs record DQ complaints with complaints about premium rate services and/or complaints about calls to other non-geo numbers. We have therefore been unable to obtain a data set for the number of complaints received by CPs about calls to DQ services.
- A5.38 Nonetheless, we have evidence from some CPs that DQ services are a major source of customer dissatisfaction. In particular, TalkTalk and Vodafone received so many complaints about the cost of DQ services that they decided to introduce pre-call announcements to

warn their customers of the relatively high cost (discussed further under remedy assessment in section 4). These CPs have told us that these measures were introduced with the intention to reduce bill shock complaints:

- a) TalkTalk told us that it introduced a call whisper on DQ calls because it *“felt that the high cost of calling these numbers without sufficient prior warning was not consistent with our commitment to being fair and transparent to our customers. We therefore introduced the call whisper to avoid or at least reduce bill shocks for our customers. As a matter of principle, we do not believe that our customers should be paying such high prices for accessing DQ services especially given the existence of cheaper alternatives, e.g. Internet. The high charges for calling DQ services is driving a poor customer experience. We believe they result in unnecessary customer complaints where TalkTalk has occasionally deemed it necessary to credit back the whole call cost to the customer even though we are not responsible for the underlying service.”*¹⁹⁸
- b) Vodafone told us that its decision to introduce a call whisper 118 and 09 ranges *“originated from the identification of domestic out of bundle charging as a major source of customer dissatisfaction. 0.7m customers in April 2017 were identified as having called a non-geographic number which was not included in their monthly bundle. These customers were also identified as having a 57% greater propensity to call into Vodafone and were 260% more likely to have made a complaint.”*¹⁹⁹

¹⁹⁸ TalkTalk formal information request s135, January 2018

¹⁹⁹ Vodafone formal information request s135, January 2018

A6. Kantar consumer research report

Research report: Directory Enquiry Services (Kantar Media):

https://www.ofcom.org.uk/_data/assets/pdf_file/0029/114797/dq-kantar-report.pdf

A7. Technical report

Technical report: Directory Enquiry Services (Kantar Media):

https://www.ofcom.org.uk/_data/assets/pdf_file/0030/114798/dq-technical-report.pdf

A8. Mystery shopping report

Market research report: Mystery shopping (BDRC Continental):

https://www.ofcom.org.uk/_data/assets/pdf_file/0031/114799/dq-mystery-shopping.pdf

A9. Legal framework and tests

- A9.1 In this Annex, we first set out the legal framework which governs our powers and duties in respect of the of 118 numbers for the provision of DQ services.
- A9.2 We then explain the legal powers we would rely on to implement a price cap on service charges for 118 calls and the legal instrument – a modification to the Numbering Plan - that we are proposing to make in order to give effect to our proposal. We explain why we consider the modification we are proposing is consistent with our statutory powers and duties and other relevant legal tests.

Ofcom's duties and powers under the Communications Act 2003

- A9.3 Ofcom's powers in relation to the use of 118 numbers derive from the Communications Act 2003 ('the Act'), which implements the EU Framework Directives.²⁰⁰
- A9.4 As set out in section 3(1) of the Act, Ofcom's principal duty in carrying out its functions is:
- a) to further the interests of citizens and consumers in relation to electronic communications matters; and
 - b) to further the interests of consumers in relevant markets, where appropriate by promoting competition.
- A9.5 In particular, Ofcom is required, by virtue of its duty under section 3(1), to secure, amongst other things, the availability throughout the UK of a wide range of electronic communications services.
- A9.6 In addition, Ofcom must have regard in all cases to:
- a) the principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed; and
 - b) any other principles appearing to Ofcom to represent the best regulatory practice.
- A9.7 In carrying out its principal duty, Ofcom must have regard to certain, specified objectives and considerations to the extent they are relevant. These include:
- the desirability of promoting competition in relevant markets (s.3(4)(b));
 - the desirability of encouraging investment and innovation in relevant markets (s.3(4)(d));
 - the vulnerability of those whose circumstances appear to Ofcom to put them in need of special protection (s.3(4)(h));

²⁰⁰ The common regulatory framework for telecommunications consisting of the Framework Directive, the Authorisation Directive, the Access Directive, the Universal Service Directive and the Privacy and Electronic Communications Directive (2002/58/EC).

- the needs of persons with disabilities, of the elderly and of those on low incomes (s.3(4)(i));
- the opinions of consumers in relevant markets and of members of the public generally (s.3(4)(k)); and
- the interests of consumers in respect of choice, price, quality of service and value for money (s.3(5)).

A9.8 In carrying out its functions under Chapter 1 of Part 2 to the Act (which include its duties in relation to numbers set out in the following paragraphs), Ofcom is required to act in accordance with the six Community requirements.²⁰¹ These include the requirements to: promote competition in the provision of electronic communications networks and services; take account of the desirability of not favouring one form of electronic communications network or service over another; and encourage the provision of network access for the purpose of securing efficiency, sustainable competition, efficient investment and innovation and the maximum benefit for the customers of communications providers.

Ofcom's functions in relation to numbers

- A9.9 Ofcom's duties and functions in relation to numbers are set out in sections 56 – 63 of the Act. They include its duty to publish the Numbering Plan and to keep it under review, its function of making general conditions imposing requirements in relation to numbers and its general duty in section 63 of the Act to ensure that the best use is made of numbers and to encourage efficiency and innovation for that purpose. Section 63(2) also requires Ofcom to secure that there is no undue discrimination by communications providers against other communications providers in relation to the use of telephone numbers.
- A9.10 Ofcom's specific powers to make and modify general conditions in relation to numbers are set out in sections 57 – 60 of the Act. The matters which may be the subject of a general condition under these provisions include conditions about the allocation and adoption of telephone numbers,²⁰² including conditions which "impose tariff principles and maximum prices for the purpose of protecting consumers in relation to the provision of an electronic communications service by means of telephone numbers...".²⁰³
- A9.11 Ofcom also has power to set conditions that apply to persons other than communications providers, where the conditions relate to the allocation, transfer or use of telephone numbers by such persons.²⁰⁴

²⁰¹ Section 4 of the Act.

²⁰² Section 58 of the Act.

²⁰³ Section 58(1)(aa) of the Act.

²⁰⁴ Section 59 of the Act.

Ofcom's regulations which apply to the use of 118 numbers

The Numbering Plan

- A9.12 The Numbering Plan is the document which Ofcom publishes, setting out the numbers which are available for allocation and the restrictions that apply in relation to the use of particular number ranges specified in the plan.²⁰⁵
- A9.13 The Numbering Plan sets out that 118 numbers are only to be used for the provision of DQ services. It also records the restriction that retail prices for consumers calling the numbers are calculated by reference to the applicable Access Charge and Service Charge and in accordance with the tariff principles set out in General Condition 17.²⁰⁶

General conditions in relation to numbers

- A9.14 In this sub-section, we set out the General Conditions that apply in respect of the use of 118 numbers
- A9.15 General Conditions that apply to 118 calls are General Conditions 10, 14, 17 and 20.²⁰⁷ These impose obligations in respect of transparency, the use of 118 numbers, including tariff principles that apply in respect of retail prices for calls the numbers, and the ability of end users to access 118 numbers.

Transparency obligations

- A9.16 General Conditions 10 and 14 impose general transparency obligations on CPs, which are applicable to their charges for calls to 118 numbers. Where a CP advertises a 118 number in connection with the provision of a DQ service, GC14.11²⁰⁸ requires the CP to include the service charge in the advertising, in a prominent position and in close proximity to the number.
- A9.17 There is a non-provider numbering condition in force which imposes transparency obligations equivalent to those in General Condition 14.11, on persons providing services by means of a non-geographic number (including DQ providers).²⁰⁹

Obligations applicable to the use of 118 numbers and pricing of calls to 118

- A9.18 These obligations are set out in General Condition 17 and are as follows:

²⁰⁵ Sections 56(1)(b) and (c) of the Act states that the Numbering Plan sets out such restrictions as Ofcom consider appropriate on the adoption and other uses to which number may be put

²⁰⁶ https://www.ofcom.org.uk/_data/assets/pdf_file/0013/102613/national-numbering-plan-june-2017.pdf

²⁰⁷ Respectively, C.1.2, C2, B1 and B4 in the new General Conditions

²⁰⁸ C2.8 of the new General Conditions.

²⁰⁹ See Annex 12, https://www.ofcom.org.uk/_data/assets/pdf_file/0027/57753/annexes.pdf

- CPs must comply with all applicable restrictions and requirements in the Plan.²¹⁰ In the case of 118 numbers, this means that 118 numbers can only be used for the purpose of providing DQ services.
- CPs must comply with the tariff principles which apply to the use of non-geographic numbers (including 118 numbers) and any applicable maximum price which is set out in the Numbering Plan.²¹¹ There is currently no maximum price which applies to calls to 118.
- The tariff principles which apply in respect of retail charges for calls to 118 (and other non-geographic numbers) require that:
 - the retail price is the sum of the Access Charge (set by the caller's phone provider) and the Service Charge (the price of the service being called);²¹²
 - the Service Charge may not vary according to the CP originating the call²¹³ and may be set at a pence per minute rate, a pence per call rate or a rate which combines the two;²¹⁴
 - where the Service Charge includes a pence per minute rate, that rate is charged on the basis of the length of the call, rounded to the nearest whole second;²¹⁵
 - the Service Charge is selected from the list of 100 price points maintained by CPs for billing purposes unless the CP consents otherwise.²¹⁶
- Each CP must ensure that its billing systems are able to accommodate up to 100 price points, which reflect, on a fair and reasonable basis, the Service Charge rates proposed by other providers.²¹⁷

Access to 118 numbers

A9.19 General Condition 20.1²¹⁸ requires CPs to ensure that end users are able to access all telephone numbers provided within the EU, where technically and economically feasible. In addition, there is currently a specific obligation on CPs under General Condition 8.1 to ensure that end users can access a DQ service, unless the end user requests otherwise or for debt management purposes. This obligation has not been carried over into the new General Conditions on the basis that its objective is sufficiently served by General Condition 20.²¹⁹

²¹⁰ General Condition 17.4/B1.5 of the new General Conditions.

²¹¹ General Condition 17.22/B1.19 of the new General Conditions.

²¹² General Condition 17.24/B1.21 of the new General Conditions.

²¹³ This is subject to paragraph 17.24 (B1.21), which allows the CP to offer discounts or other special offers in relation to the Service Charge or include it in call bundling arrangements.

²¹⁴ General Condition 17.26/B1.23 of the new General Conditions.

²¹⁵ General Condition 17.28/ B1.25 of the new General Conditions.

²¹⁶ General Condition 17.26(e)/B1.23(e) of the new General Conditions.

²¹⁷ General Conditions 17.31 – 17.32/B1.28 – B1.29 of the new General Conditions.

²¹⁸ B4.2 of the new General Conditions.

²¹⁹ See paras 6.10 – 6.11 *Review of the General Conditions of Entitlement*, 19 September 2017

https://www.ofcom.org.uk/data/assets/pdf_file/0026/106397/Statement-and-Consultation-Review-of-the-General-Conditions-of-Entitlement.pdf

DQ services for vulnerable customers

- A9.20 Under GC8.2, CPs are required to provide their consumers, upon request, a telephone directory book containing all telephone numbers of subscribers who have been assigned telephone numbers within the consumer's local area. However, there are a variety of reasons as to why vulnerable consumers may not be able to use a telephone directory book and require an alternative way to obtain the number they need.
- A9.21 Under GC15, CPs providing publicly available telephone services are required to make available certain facilities for to the disabled people.
- A9.22 These include the provision of free directory enquiries, include the call connect service, for consumers who are unable to use a printed directory because of a disability.
- A9.23 All providers comply with this requirement, with nearly all providers buying the free DQ service from BT and using the same number – 195. Providers will often require these DQ users to give them evidence of need, or at least declare in writing that they require the service and cannot use the phone book. However, once the user has done this, the provider will advise of the number to call and provide a pin or a password.

Regulation of premium rate services

- A9.24 Ofcom has power under section 120 of the Act to set conditions for the purpose of regulating the provision, content, promotion and marketing of premium rate services. Such conditions may apply to every provider of premium rate services (PRS) or to a description of such services or providers.
- A9.25 Under the PRS Condition which Ofcom has set under section 120, Ofcom requires providers falling within the scope of the PRS Condition to comply with directions given by the Phone-paid Services Authority (PSA) in accordance with its Code of Practice and for the purposes of enforcing the provisions of that Code. DQ providers are subject to the PRS Condition.
- A9.26 The PSA Code of Practice outlines wide-ranging rules to protect consumers, including rules in relation to price transparency and complaints-handling, as well as the processes that the PSA applies when regulating the PRS industry.²²⁰
- A9.27 In addition to its Code of Practice, the PSA has issued general and sector-specific guidance. This includes guidance applicable to DQ services, which sets out the standards that the PSA expects providers to meet in delivering DQ services.²²¹ The guidance includes a provision specifying that, prior to any further connection being made by the provider, the consumer

²²⁰ https://psauthority.org.uk/-/media/Files/PSA/For-Businesses/Your-phone-paid-service/Code-of-Practice/PSA_Code_of_Practice_14th_Digital.ashx?la=en&hash=49BE1A6A76303EEBCF254A692015059D4D4171A3

²²¹ https://psauthority.org.uk/-/media/Files/PSA/For-Businesses/Guidance-and-compliance/Explore-our-guidance/Guidance-files/17_Directory-enquiry-services.ashx?la=en&hash=2FA9CFB8D93CB71E4099385FDE9AB6BCF9FF10E7

should be clearly informed of the cost, and have the opportunity to opt out of the connection, for example, by hanging up before they are connected.²²²

Legal powers to impose a price cap on the service charge for 118 calls

A9.28 Section 56(1)(ba) of the Act provides that the Numbering Plan should set out:

“such requirements as [Ofcom] consider appropriate, for the purpose of protecting consumers, in relation to the tariff principles and maximum prices applicable to numbers so adopted or available for allocation”.

A9.29 GC 17.26 requires that the service charge for consumer calls to specified non-geographic numbers, including the 118 range, is no greater than any applicable maximum price in the Numbering Plan.

A9.30 Accordingly, Ofcom has already set a General Condition which requires that the price set for calls to 118 numbers complies with any maximum price specified in the Numbering Plan. In order to implement our proposal for a price cap on the level of the service charge for 118 calls, we propose to modify the Numbering Plan by amending the entry in the column “Applicable Tariff principles and maximum prices” for 118 numbers.

Consultation on modification to the Numbering Plan

A9.31 The proposed amendment will add text to implement the proposed service charge cap of £2.57849 per 90 seconds (where the service charge comprises or includes a per minute rate) and per call (where the service charge comprises exclusively a per call rate). The cap is expressed in pence and exclusive of VAT. The proposed modification is set out in full in the Notifications at Annex 10 of this document.²²³

A9.32 We consider that our proposed modification falls within the scope of section 56(1)(ba) of the Act, in that it is a requirement imposing a maximum price applicable to service charges for 118 numbers, which we consider appropriate for the purpose of consumer protection.

²²² PSA Sector-Specific Guidance Note, Directory Enquiry Services, paragraph 2.3.

²²³ On 1 October 2018, a modification to the entry for 118 numbers in Part A of the Numbering Plan will come into force, reflecting the revised numbering of the General Conditions set by Ofcom on 19 September 2017 and coming into force on 1 October 2018. Accordingly, we are consulting on modifications to the current entry for 118 numbers in the Numbering Plan and to the equivalent entry in the Numbering Plan coming into force on 1 October 2018.

Legal tests and statutory duties

A9.33 We may not set or modify (as the case may be) the Numbering Plan unless we are satisfied that the condition or modification is objectively justifiable, not unduly discriminatory, proportionate and transparent.²²⁴ We are satisfied that our proposed modification meets these requirements.

A9.34 In particular, we consider the modification is:

- i) **objectively justifiable**, in that it is intended to address the consumer harm associated with calls to 118 numbers that we describe in Section 3;
- ii) **not unduly discriminatory**, in that the cap applies equally to all OCPs, TCPs and SPs that originate or terminate calls or supply services using 118 numbers;
- iii) **proportionate**, in that the modifications are the minimum necessary to achieve the objective outlined above. We have explained in Section 4 why we consider that alternative regulatory approaches (including pre-call announcements) would fail to address our concerns and our grounds for considering that the impact on SPs providing directory enquiry services is proportionate;
- iv) **transparent**, in that the modification is set out in full in Annex 10 and is explained in detail in this document.

A9.35 We consider that we are fulfilling our general duty in relation to our telephone numbering functions, as set out in section 63 of the Act, by **securing the best use of telephone numbers**, in that our proposals are designed to materially reduce the scope for consumers to be shocked by the size of their bill after calling 118 numbers and to reduce incentives for fraud and misuse on the range.

A9.36 We also consider that our proposals are consistent with our principal duty under section 3 of the Act, and the Community requirements set out in section 4 of the Act. In particular:

- i) we consider that our proposals will result in significant benefits to consumers and citizens (sections 3(1), 3(5) and 4(5)) by addressing the harm associated with consumers' poor awareness and understanding of the potential cost of calling a 118 number, improving access to affordable directory enquiry services and reducing incentives for fraud and misuse on the 118 range;
- ii) in carrying out our review, we have had regard to the needs of vulnerable consumers (section 3(4)(h) and (i)), in particular through our Equality Impact Assessment (see Section 2) and by consideration of the extent to which our proposals would impact on access to affordable directory enquiry services (see Sections 3 and 4);

²²⁴ See section 60(2) of the Act.

- iii) we have had regard to the opinions of consumers and members of the public generally (section 3(4)(k)), through a consumer survey, assessment of consumer complaints and engagement with Ofcom's Consumer Panel; and
- iv) we have also had regard to the principle that regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed, and to other principles of best regulatory practice (section 3(3)). In particular, we have explained in detail in this document why we consider that regulatory intervention is required, and we explain above why we consider that our proposals are proportionate and transparent.

Consultation

A9.37 We welcome comments from stakeholders on the proposed modification to the Numbering Plan at Annex 10.

Consultation question 4: Do you have any comments on the notifications at Annex 10 and the draft modification set out within them? Where you disagree with the proposed modification, please explain why.

A10. Notifications of proposed modifications to the provisions of the Numbering Plan under section 60(3) of the Act.

1. General Condition 17 of the General Conditions of Entitlement has effect by reference to the provisions of the Numbering Plan.
2. In accordance with section 60 of the Act, Ofcom proposes to modify the provisions of the Numbering Plan.
3. The draft modification to the Numbering Plan is set out in the Schedules to this Notification.
4. Ofcom's reasons for making this proposal, and the effect of the proposed modification, are set out in the accompanying consultation document.
5. Ofcom considers that the proposed modification complies with the requirements of section 60(2) of the Act.
6. In making the proposal, Ofcom has considered and acted in accordance with their general duty as to telephone numbering functions under section 63 of the Act, their general duties under section 3 of the Act and the six Community requirements set out in section 4 of the Act.
7. Representations may be made to Ofcom about the proposed modification until **5pm on 22 August 2018**.
8. If implemented before 1 October 2018 the modification in Schedule 1 shall enter into force on a date to be specified in Ofcom's final statement in relation to these proposals.
9. If implemented the modification in Schedule 2 shall enter into force on a date to be specified (but which shall be on or after 1 October 2018) in Ofcom's final statement in relation to these proposals.
10. In this Notification:
 - a. "the Act" means the Communications Act 2003;
 - b. "the General Conditions of Entitlement" means the general conditions set under section 45 of the Act by the Director General of Telecommunications on 22 July 2003, as amended from time to time;
 - c. "Ofcom" means the Office of Communications; and
 - d. "Numbering Plan" means the National Telephone Numbering Plan published by Ofcom pursuant to section 56(1) of the Act, and amended from time to time.
11. Words or expressions shall have the meaning assigned to them in this Notification, and otherwise any word or expression shall have the same meaning as it has in the Act.

12. For the purposes of interpreting this Notification: (i) headings and titles shall be disregarded; and (ii) the Interpretation Act 1978 shall apply as if this Notification were an Act of Parliament.

13. The Schedules to this Notification shall form part of this Notification.

Lindsey Fussell
Consumer Group Director

[] 2018

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

SCHEDULE 1

Modification to take effect before 1 October 2018

1. In Part A Section A1 'Public Telephone Network Numbers', the modification marked in bold text and highlighted in yellow shall be made to the entry for the number 118XXX:

118XXX	6-digit Non-Geographic Numbers used to access a Directory Enquiry Facility ('Type B Access Codes')	<p>Retail charge to a Consumer of a call calculated by reference to the applicable Access Charge and Service Charge and in accordance with the tariff principles in paragraphs 17.24 – 17.30 of the General Conditions of Entitlement.</p> <p>The applicable Service Charge must not exceed:</p> <ul style="list-style-type: none">• 257.849 pence per 90 seconds, exclusive of VAT, where the Service Charge comprises or includes a pence per minute rate; or• 257.849 pence per call, exclusive of VAT, where the Service Charge is set exclusively at a pence per call rate.
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SCHEDULE 2

Modification to take effect on or after 1 October 2018

1. In Part A Section A1 'Public Telephone Network Numbers', the modification marked in bold text and highlighted in yellow shall be made to the entry for the number 118XXX:

118XXX	6-digit Non-Geographic Numbers used to access a Directory Enquiry Facility ('Type B Access Codes')	<p>Retail charge to a Consumer of a call calculated by reference to the applicable Access Charge and Service Charge and in accordance with the tariff principles in paragraphs B1.21 – B1.27 of the General Conditions of Entitlement.</p> <p>The applicable Service Charge must not exceed:</p> <ul style="list-style-type: none">• 257.849 pence per 90 seconds, exclusive of VAT, where the Service Charge comprises or includes a pence per minute rate; or• 257.849 pence per call, exclusive of VAT, where the Service Charge is set exclusively at a pence per call rate.
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A11. Equality Impact Assessment

Introduction

- A11.1 Ofcom is required by statute to assess the potential impact of all our functions, policies, projects and practices on equality.²²⁵ An equality impact assessment (EIA) also assists us in making sure that we are meeting our principal duty of furthering the interests of citizens and consumers regardless of their background or identity.
- A11.2 Unless we state otherwise in this document, it is not apparent to us that our proposed remedy will have a differential impact on any equality group.
- A11.3 Further, we have not considered it necessary to carry out separate EIAs in relation to race or sex equality or equality schemes under the Northern Ireland and Disability Equality Schemes. This is because we anticipate that our regulatory intervention will not have a differential impact on people of different sexes or ethnicities, consumers with protected characteristics in Northern Ireland or disabled consumers compared to consumers in general.
- A11.4 The analysis presented in this document represents an impact assessment, as defined in section 7 of the Communications Act 2003 (the Act).
- A11.5 You should send any comments on this impact assessment to us by the closing date for this consultation. We will consider all comments before deciding whether to implement our proposals.

Equality impact assessment

- A11.6 We have considered whether the proposed remedy is likely to have an adverse impact on promoting equality. In particular, we have considered whether the proposed remedy is likely to have a different or adverse effect on UK consumers and citizens with respect to the following equality groups: age, disability, sex, gender reassignment, pregnancy and maternity, race, religion or belief and sexual orientation, and, in Northern Ireland, political opinion and persons with dependents.
- A11.7 The intention behind our approach to the regulation of 118 numbers is to protect consumers from harm by ensuring that prices for DQ services are fair and transparent.
- A11.8 To understand how our proposals may affect equality groups, we have considered how different groups in society use DQ services. In particular, we conducted market research that enabled us to assess the potential harm that consumers may experience when using the 118 number range. While our research identifies different levels of use of DQ services by different groups within society, our proposed regulation is aimed at ensuring protection from harm for all consumers in relation to the use of DQ services.

²²⁵ Ofcom has a general duty under the 2010 Equality Act to advance equality of opportunity in relation to age, disability, sex, gender reassignment, pregnancy and maternity, race, religion or belief and sexual orientation.

- A11.9 We consider that our proposals will not have a detrimental impact on any defined equality group.
- A11.10 Rather, we consider that our regulatory intervention will further the aim of advancing equality of opportunity between different groups in society by furthering the interests of all consumers in respect of DQ services.

A12. Glossary

Access Charge ('AC') The charge made by the Communications Provider originating the call for enabling a call to a non-geographic or service number made by the Communications Provider originating the call.

Bad debt A monetary amount owed to a creditor that is unlikely or certain not to be paid.

Bill shock Where a consumer receives a charge or a telephone bill for a DQ call that exceeds what they expected to pay.

Call whisper A type of pre-call announcement alerting the caller that the call is charged at a premium rate, but without specific price information.

Communications Provider ('CP') A person who provides an Electronic Communications Network or provides an Electronic Communications Service.

DQ provider A provider that offers a telephone phone service which finds specific telephone numbers and/or addresses for an individual, residence, business or government entity. The provider is accessed through the 118 number range.

General Condition ('GC') A general condition imposed by Ofcom under section 45(2)(a) of the Communications Act 2003.

Interactive voice response ('IVR') A technology that allows interaction between computers and people through the use of voice.

Landline Either a standalone fixed voice service or fixed voice as part of a bundle of services.

Non-geographic numbers Phone numbers which are not linked to a specific location. These include 03, 05, 07, 08, 09, 116 and 118 numbers.

Numbering Plan A document setting out telephone numbers available for allocation and restrictions on the adoption and other uses of those numbers, and as provided for in Section 56(1) of the Communications Act 2003.

Onward call connect A service provided by DQ service providers that automatically connects the caller to their requested number. The service is typically charged at the same pence-per-minute rate as the call to the DQ service provider.

Phone-paid Services Authority ('PSA') The UK regulator for content, goods and services charged to a phone bill (formerly PhonepayPlus ('PPP')).

Pre-call announcement ('PCA') A pre-recorded message played to the caller setting out how the call will be charged for. A PCA may be made before the call is connected by the Communications Provider originating the call or at the point it is connected to the DQ provider.

Premium rate service ('PRS') Typically a content service provided by means of a non-geographic number (e.g. DQ services on 118 numbers).

PRS Condition A legal instrument set by Ofcom for the purpose of regulating the provision, content, promotion and marketing of premium rate services under Section 120 of the Communications Act 2003.

Service Charge ('SC') The charge made by the Service Provider for the service the consumer receives.

Service Provider ('SP') A provider of voice or data services to third parties using non-geographic numbers.

Terminating Communications Provider ('TCP') The Communications Provider on whose network a call terminates, which in this context hosts a DQ service.

Unbundled tariff A tariff structure for 118 number calls that involves the separation of the call retail price into an access charge charged by the Communications Provider originating the call and a service charge charged by the Service Provider.