



# 'Business messaging: Review of the A2P SMS termination market' – Sky's response to Ofcom's consultation

## Summary

Sky disagrees with Ofcom's proposal to introduce a price cap in the A2P SMS termination market. We believe the proposed intervention is not supported by sufficient evidence and conflicts with Ofcom's duties to operate with a bias against intervention and to promote investment, competition, and economic growth – which have been reinforced by recent statements from the UK Government.

We urge Ofcom to reconsider whether regulatory intervention in this legacy market is appropriate, particularly in light of:

- the lack of robust evidence around market power and pricing abuse;
- the significant risk of distorting competition by favouring unregulated digital platforms over regulated communications providers ("CPs"); and
- the investment CPs make to comply with regulatory obligations – such as emergency call provision and security and resilience – which may be impacted by this proposal.

However, without prejudice to this, if Ofcom does decide to proceed with regulation we outline below several areas where the proposed price cap needs to be improved.

## 1. Why regulation is inappropriate

Sky considers that Ofcom's proposal to introduce a price cap in the A2P SMS termination market is inappropriate and unjustified. In addition to our own concerns, we support the arguments set out in UKCTA's submission, which highlight several fundamental flaws in both the regulatory approach and evidence base on which Ofcom relies.

As explained in UKCTA's submission, Ofcom's decision to regulate this legacy market for the first time is difficult to reconcile with its earlier abandonment of the 2022 review into the online communications market. That project would have provided a more comprehensive and future-facing assessment of the voice and messaging landscape, including the rise of digital platforms which provide similar services. Instead, Ofcom has pivoted toward a narrowly focused proposal targeting only CPs, while excluding the important role played by online services. We agree with UKCTA that this risks distorting the market, delivering an outcome which favours online players over CPs.

This asymmetry is particularly troubling given the wide range of obligations faced by CPs – such as emergency call provision and video relay, and security and resilience requirements – which require significant investment. For instance:

- A2P SMS is a vital channel for businesses and public services, but it is also increasingly exploited for fraud, especially smishing.
- Sky continues to invest significantly in anti-fraud measures such as: SMS firewalls to detect and block illegitimate traffic, sender ID registries to validate legitimate enterprise senders, and analytics and filtering technologies to protect end users.
- Reducing termination revenues by imposing a price cap will make it harder for CPs to fund these protections at scale, weakening the security and reliability of the A2P channel.

The consultation also fails to set out an appropriate evidence base for why regulation is proportionate and justified. Ofcom's market sizing appears incomplete, with key categories of traffic such as in-app messaging and session-based messages either excluded or inadequately measured. This needs to be properly evaluated.

Finally, we agree with UKCTA's concerns about the broader policy context. Since May 2024, Ofcom has been under a statutory duty to consider the impact of its decisions on economic growth.

This obligation has been reinforced by recent statements from the UK Government, including the Chancellor, who committed to “free businesses from the shackles of regulation” and to “boost investment, create jobs and put more money into working people’s pockets.” Ofcom’s proposals appear to go against that objective; it proposes to introduce new regulation on legacy services for the very first time – adding further to the regulatory burden on CPs – and creating a risk of market distortion given that the price cap will disadvantage CPs relative to online players. It also appears to conflict with Ofcom’s overarching principle to operate with a bias against intervention.

For these reasons, Sky believes that Ofcom should reconsider whether regulation is justified in this market at all.

## **2. In the event Ofcom does decide to introduce a price cap, the following needs to be addressed**

In the event Ofcom does decide to impose a price cap, we make the following points:

### *The cap level is too low because it is benchmarked against 2020 prices*

The proposed benchmark of December 2020 pricing is inappropriate, as it reflects the Covid-19 pandemic period, during which pricing was atypical and significantly shaped by public health messaging needs.

We recommend using a blended average of rates from 2021 and 2022, which provides a better reflection of post-pandemic, market-based pricing practices.

### *All of the proposed price cap options set out by Ofcom have flaws*

As explained below, there are problems with all three of the price cap options set out by Ofcom.

- **Option 1** is inadequate. It fails to address off-net transit and termination, allowing the higher P2P termination rate to continue to apply. This creates incentives for Aggregators to reroute A2P messages – especially those using long number Sender IDs – via other MCP networks to benefit from higher P2P pricing. To prevent this, the P2P rate would need to remain above the capped A2P rate, distorting pricing and reinforcing the very incentives the regulation aims to remove. Conversely, Aggregators could reclassify P2P traffic as A2P (e.g., long number Sender IDs on direct routes) to benefit from the lower capped A2P rate, resulting in regulatory arbitrage.
- **Option 2**, while the most effective in principle, creates practical difficulties to implement. Long-number A2P and P2P messages can appear identical at the interconnect level but are priced differently, creating billing and classification difficulties – especially for off-net traffic.
  - A2P traffic often uses pseudo numbers or long numbers (numeric sender IDs), which resemble P2P in format. Sky’s analysis shows that 16% of A2P traffic uses long numbers, complicating any attempt to distinguish traffic types using today’s infrastructure; and
  - Many CPs use P2P interconnects with blended rates that do not differentiate traffic types. These arrangements do not support split charging models without significant renegotiation and system upgrades.

Without a reliable method to distinguish traffic types, there is a clear risk of misclassification or manipulation.

- **Option 3** would be ineffective, as it could set the Aggregator rate at or above the cap – undermining any meaningful constraint on MCP pricing.

In summary: Option 1 invites arbitrage; Option 2 is hard to enforce; and Option 3 fails to constrain pricing. All of the options create opportunity for market distortion.

### *Arbitrage risks and commercial distortion*

If long-number messages are treated as uncapped P2P traffic, there is a strong incentive for businesses to shift traffic away from alpha tags and toward long numbers to evade the cap. This would erode the cap’s effectiveness and create a distorted market where traffic classification determines cost rather than technical or consumer need. We are concerned that this could undermine trust in sender identity and compromise messaging integrity.

### *The proposed three-month transition period is too short and must be extended*

The proposed three-month transition period is not feasible given the scale of required changes, including:

- rewriting or adapting billing systems;
- renegotiating commercial agreements; and/or
- rolling out technical solutions to classify and report traffic accurately.

If Ofcom decides to implement a price cap, a minimum of 12 months would be required to implement changes.

### **3. Conclusion**

Sky urges Ofcom not to proceed with regulation in this market, particularly given the limited evidence base and exclusion of online players. If Ofcom does proceed, the proposals must be significantly revised to:

- apply a more realistic and economically grounded price benchmark;
- address the real-world challenges of traffic classification and billing;
- avoid distorting traffic routing and arbitrage;
- ensure regulated CPs are not unfairly disadvantaged relative to unregulated competitors; and
- extend the implementation timeline to allow sufficient time for appropriate implementation.

**April 2025**