Three's response to Ofcom's Review of the A2P SMS termination market.

Non-confidential

This is a non-confidential version. Confidential redactions are marked with [✂]

Date 8/04/2025

Three.co.uk

Executive Summary.

Businesses, financial institutions, and public bodies in the UK use A2P SMS to send large volumes of messages to mobile subscribers, such as one-time passcodes, appointment reminders, promotional messages, customer service and surveys.

Ofcom proposes to control the prices that Mobile Communications Providers (MCPs) can charge Aggregators to deliver A2P messages over the next three years. Ofcom believes that MCPs enjoy a position of monopoly in the termination of those messages, and that regulation is the only way to stop them from charging monopoly prices.

The consultation finds that A2P SMS is by far the preferred business messaging service for business senders and recipients in the UK, and that no good substitutes will emerge during the next three years. Ofcom acknowledges that, in time, Online Communications Services (OCS) and in-app notifications may become the preferred channels, as they already have in some international markets.

We do not think Ofcom has got its timing right. Regulation of a highly dynamic business messaging industry would do more harm than good given the current pace of innovation. Ofcom should let the market run its course, allowing alternatives to displace A2P SMS rather than get in the way with regulation.

Businesses and public senders have a growing number of alternatives to A2P SMS that will constrain MCPs' ability to raise termination rates over the next three years. These alternatives will soon take over as the preferred means of business messaging, as they have for P2P SMS – an entirely unregulated market taken over by WhatsApp, Instagram, Snapchat, etc.

These platforms have set their sights on A2P SMS, threatening the long-term viability of the model. International A2P SMS traffic is projected to peak in 2025, with revenues starting their long-term decline from about 2026.

Analysts expect the global dominance of A2P SMS (which accounted for over 90% of global business messaging traffic in 2023) to end by 2027, with WhatsApp emerging as the dominant global platform and offsetting the projected decline in A2P SMS traffic.

A large-scale migration to in-app notifications and OCS is already underway (in the UK and globally) since MCPs started increasing A2P SMS termination rates in 2021. Businesses and public senders in the UK are directing a growing share of their messaging to OCS and using apps to message customers. The key drivers are the increasing popularity of these alternatives and the termination price increases.

A2P SMS excels for one-way communications such as "*your parcel will arrive today*". As soon as a customer wants to interact with the message, however (e.g. "*I'd like to reschedule delivery*" or "*I'm out, please can you leave it next door*"), two-way comms via app or OCS is required. These alternatives are cheaper, more flexible, have better functionality, are easier to integrate and are more secure, so they are increasingly the go-to channels for senders and recipients.

The volume of messages from Messaging Apps in the UK is already comparable to A2P SMS volumes. A2P SMS is still widely used but growth rates have slowed, and volumes are expected to plateau by about 2028. Most growth in the UK market is coming from Messaging Apps and is happening at the expense of A2P SMS. Indeed, volumes on these apps are expected to surpass A2P SMS volumes by 2027 in the UK, mirroring global trends.

Ofcom has seen no evidence of substitution away from A2P SMS, or that substitution has been motivated by termination price increases, because it has not sized the market appropriately. The consultation has not collected data on the volume of in-app notifications or apps other than WhatsApp, so growth from all these alternatives has been overlooked.

Ofcom has not assessed the potential impact of regulation on MCP's efforts to combat scam SMS originating from A2P service providers either. Regulation may negatively impact MCPs' ability to invest in infrastructure and measures that protect consumers from scams and spam messages.

In summary, the market is already responding to increases in A2P SMS termination rates. At this stage in the development of the industry it is better to let the market sort itself, as operators need time to fully adjust to the new pricing levels. Regulation risks stifling innovation, preventing the growth of substitutable services, and getting in the way of the expected evolution of the market.

If Ofcom seeks further reassurance, voluntary commitments from MNOs would be a more proportionate solution than blanket regulation of the market, and could include, for instance:

[✂]

Our response is structured as follows:

- **Chapter 1** looks at the evolution of the P2P SMS market, which has been taken over by OCP messaging in a short space of time. The industry expects A2P SMS to eventually follow the same path as P2P SMS.

- **Chapter 2** discusses that volumes from Messaging Apps are expected to surpass A2P SMS volumes in the UK by 2027. There are a growing number of alternatives to A2P SMS at the retail level, and senders are directing a growing share of their messages to those channels due to their increasing popularity and recent rises in the price of A2P SMS termination.

- **Chapter 3** discusses that the A2P market is competitively priced and there is a clear risk that ex-ante regulation will stifle innovation and the emergence of alternatives to A2P SMS.

- **Annex I** addresses Ofcom's proposal to introduce a cap on Interconnect routes. Three strongly opposes this proposal as MCP policies strongly recommend that the Interconnect should not be used for the purpose of routing A2P SMS. Furthermore, the capping could lead to exploitation by bigger MCPs.

Contents.

1. The P2P SMS market has been taken over by OCS messaging in a short space of time

To understand the likely evolution of A2P SMS, it is helpful to understand the development in a closely comparable market – P2P SMS. The industry expects that A2P SMS will follow the path of P2P SMS – an entirely unregulated market that has been taken over by OCS (WhatsApp, Instagram, Snapchat, etc).

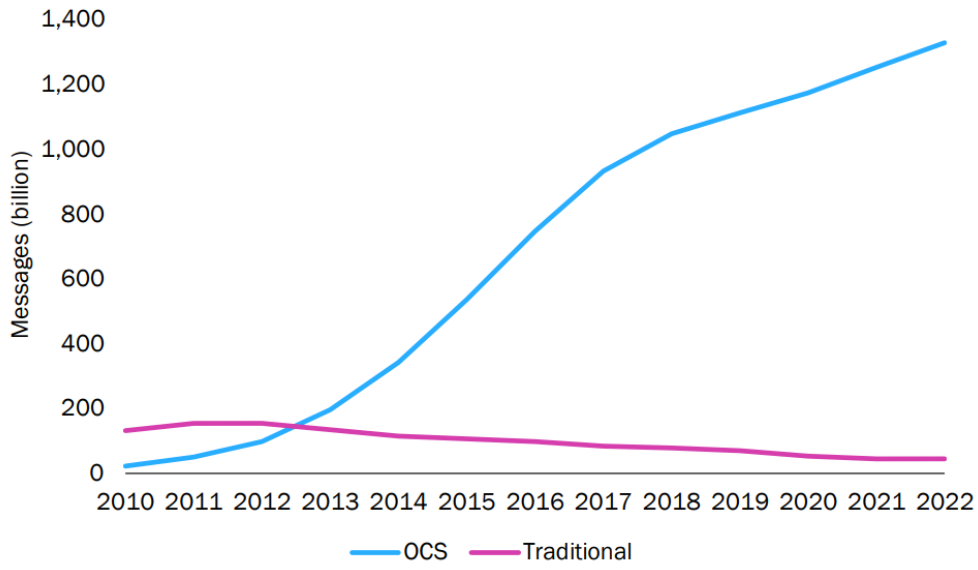
MNOs have lost the P2P market to competition from OCS in a short space of time. The popularity and usage of OCS continues to increase, while MNOs have seen their P2P SMS traffic and revenues disappear. The same OCS platforms have now set their sights on A2P SMS business messaging.

The P2P SMS market has been taken over by OCS in a short space of time

MCPs terminate both types of SMS on their networks. Both A2P and P2P SMS rely on the same technology (SMS) and are aimed at the same target audience (UK consumers).

The UK P2P messaging landscape has undergone a profound transformation over the past decade, with OCS platforms taking over the market. Figure 1 below illustrates the transformation in UK P2P messaging habits between 2012 and 2022.

Figure 1: P2P messaging volumes in the UK: traditional messages (SMS and MMS) and OCS[1]



Source: Ofcom 2023, Personal online communication services

In 2012, SMS was still the dominant messaging technology, accounting for 60% of P2P messages sent in the UK, with approximately 150 billion SMS messages sent annually. By comparison, OCS messaging services (including WhatsApp, Facebook Messenger, WeChat and others) represented just 40% of the market, with around 100 billion messages.

Fast forward to 2025, and the market is dominated by OCS messaging, which now represents 97% of all P2P messages sent, while SMS has been relegated to less than 3% of the market.

The most immediate drivers of OCS adoption amongst UK consumers have been cost and SMS limitations.[2] SMS was traditionally charged per message so costs rapidly escalated. By contrast, OCS messages are free of charge, can be delivered to any subscriber in the world,

[1] Ofcom includes SMS messages from person to person, or from person to machine (for example, for voting purposes), but not from application to person. Includes premium-rate SMS, MMS messages, and messages through an operator IP-based application

[2] Personal online communication services

require only an app and internet connection and offer better functionality, including:

- Higher character limits – e.g. a WhatsApp message allows up to 65,536 characters vs SMS's 160-character limit
- Rich media sharing (photos, videos, audio)
- Group chat functionality
- Voice and video calls
- Real-time feedback (read receipts, typing indicators, knowing when other users are online)
- Location sharing capabilities
- Ability to send and retain messages using different devices (mobiles, tablets and laptops)

Finally, as digital privacy concerns grew in the past decade, the security advantages of OCS platforms became increasingly important, with WhatsApp and other leading messaging apps implementing end-to-end encryption preventing intermediaries from being able to read a message.

There is no question that OCS messaging apps are now a very close – indeed superior – retail substitute for P2P SMS services and exert a strong competitive constraint at the retail level. Mobile plans in the UK now include unlimited SMS by default so the cost of SMS to consumers is effectively zero and is no longer a dimension of competition.

In effect, MNOs have lost the P2P market to competition from OCS. As Ofcom has found, P2P SMS has been largely displaced by OCS, which rose more than tenfold between 2012 and 2022.[3] The popularity and usage of OCS continues to increase while MNOs have seen their P2P SMS traffic and revenues disappear. The same OCS platforms have now set their sights on A2P SMS business messaging.

[3] Call for inputs: Reducing mobile messaging scams

2.The growing popularity of alternatives and increases in A2P SMS termination are driving migration away from A2P SMS

Ofcom believes that alternatives to A2P SMS are not going to displace it, at least not during the three-year window of the market review. In Ofcom's view, OCS and in-app notifications will not become effective substitutes for A2P SMS in the short to medium term:

- Business senders and message recipients strongly prefer A2P SMS as other business messaging services are often seen to have drawbacks (e.g., limited reach, etc);

- Although volumes of some of the other business services have been growing from a low base this has not happened at the expense of A2P SMS or been motivated by A2P SMS pricing;

- To the extent that there has been any switching away from A2P SMS, it has not rendered termination price increases unprofitable.

This assessment reflects yesterday's market, not today's. The UK business messaging market is much more vibrant, innovative and dynamic than portrayed in the consultation:

- **Businesses and public bodies have a growing number of good retail substitutes to A2P SMS** – A2P SMS is not "*by far the preferred business messaging service"*. Businesses and public senders prefer A2P SMS for some purposes and alternative channels for others.

- **A large-scale migration to in-app applications and OCS is already underway** – retail demand for A2P SMS is already switching to alternative channels, as businesses and public senders direct a growing proportion of messages to those.

- The key drivers of this migration are the growing popularity of in-app applications and OCS and increases in the price of A2P SMS termination. Growth of these alternatives is happening at the expense of A2P SMS. UK volumes on Messaging Apps are already comparable to A2P SMS volumes and are expected to surpass A2P SMS volumes by 2027. The days of A2P SMS as the preferred means of business messaging are numbered.

Businesses and public bodies have a growing number of retail substitutes to A2P SMS

The A2P messaging market in the UK is growing strongly, as businesses and public bodies increasingly rely on messaging to reach their intended audience. Sending messages through SMS, apps, websites, OTT or social media is a cheap and effective way of confirming appointments, sending reminders, communicating promotions and answering customer queries.

The consultation draws artificial boundaries between in-market and out-of-market alternatives, suggesting that A2P SMS is "*by far the preferred business messaging service for business senders and message recipients*", while all other channels are not good substitutes.

There are no such rigid lines of division in the market today. Aggregators and Message Service Providers offer a wide range of business messaging services, including not only A2P SMS but also OCS and RCS. Some businesses and public senders prefer to contact customers directly via dedicated apps or via more traditional channels.

Senders have a growing number of alternatives to A2P SMS at the retail level, namely:

- **Traditional channels** – such as emails, letters and voice calls;
- **OCS** – messages sent via apps that provide an over-the-top (OTT) service on a user's device, such as WhatsApp for Business, Facebook Messenger, WeChat, Instagram, Telegram, which allow customers to communicate with other users of the same platform;
- **In-app messages** – messages and notifications sent via dedicated apps, such as banking, Uber or the NHS apps, and also via white label apps catering for the needs of smaller firms in specific sectors (e.g. food delivery, taxi companies, transport and delivery, gyms, etc);
- **Messages via the default messaging app in the device** – where customers can access not only A2P SMS but also RCS/RBM and other applications like iMessages and Google Messages.

Each of these channels has its own unique selling points and drawbacks – none is universally preferred:

- A2P SMS is attractive due to its wide availability, reliability, and reach. Whether read rates are high is currently a hot topic, with the latest data suggesting that nearly all A2P SMS are viewed but only 55% are actually read (as user screens are now inundated with messages from SMS, WhatsApp, Skype, in-app notifications, etc.).[4]

- On the other hand, the functionality of A2P SMS is falling behind that of alternative channels (see Figure 2). Communicating with customers via OCS or in-app messaging is typically cheaper, offers better two-way functionality (e.g. to send images and videos to show a faulty product, give repair instructions or demonstrate how to use a product), is easier to integrate with other platforms and is typically more secure (with encryption preventing others from seeing the content).

Figure 2: the functionality of A2P SMS is falling behind that of OTT Apps and in-app messaging

	Security	Delivery rate	Ability for 2-way communication	Extended analytics (open rate, clock-through rate)	Multimedia support	Global reach	Integration capabilities	Cost effectiveness
SMS Messaging	Limited (high AIP)	Yes	Yes	Limited	No	Yes	Limited	Yes
RCS Messaging	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
OTT Apps	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
In-App Messaging	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
VoIP Messaging	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Flash calls	Yes	Yes	No	Limited	No	Yes	Limited	Yes

KEY TAKEAWAYS

1. Limited carrier innovation has led to the functionality of SMS fall behind that of alternative channels
2. Without innovation, carrier messaging relevance will reduce as enterprise use-cases are delivered by other channels

Source: 240521 GLF Future of Messaging paper v4.pdf

[4] SMS Engagement Rates Outdoing Channels | Mobilesquared

For these reasons, different channels are suited to different use cases. Senders and recipients typically prefer certain channels for some purposes and other channels for others:

- A2P SMS is the preferred channel for some use cases – particularly time-sensitive, one-way messages and critical notifications such as one-time passwords, appointment reminders, flood alerts, or authentication codes, where high reach, prompt delivery and visibility are required. Ofcom's own research concludes that A2P SMS is the most-used channel for only one of the four identified use cases (security/passcodes).[5]

- Alternative channels are preferred for other use cases – such as customer support, information, marketing or promotional purposes, where interactive, two-way communication is required, messages are less time-sensitive, added security is critical, or a significant amount of information is provided. Here OCS, in-app notifications and e-mails are typically chosen, and there is nothing "niche" about these use cases. Ofcom's research concludes that e-mail is the most-used channel for confirmation, information and promotions.

In a nutshell, A2P SMS excels for one-way comms such as "*your parcel will arrive today*". As soon as a customer wants to interact, however (e.g. "*I'd like to reschedule delivery*" or "*I'm out, please can you leave it next door*"), two-way comms via app or OCS is required.

Analysys Mason has summarised the position as follows:[6]

> *"No app can outperform SMS on reach. However, every app outperforms SMS on functionality (such as image and video sharing, conversational commerce, read-receipts), making these platforms preferable for many consumers to interact with customer support. Additionally, the most advanced apps (such as WeChat) enable e-commerce within the app or conversational commerce (for example, Facebook Messenger offers services such as Uber).*
>
> *As third-party apps are cheaper for businesses to communicate with customers, many will do so once it is established that a customer can be contacted on an app. However, each app has unique selling points and weaknesses. In general, the most common weakness is a limited reach (compared to SMS, which is ubiquitous). However, specific apps in some countries have*

[5] Application to Person (A2P) Message Recipient Research – Report, page 10
[6] Business A2P messaging will continue to migrate away from SMS

reached near-ubiquity (for example, KakaoTalk in South Korea, WeChat in China and WhatsApp in Spain)".

A large-scale migration to OCS and in-app applications is already underway

The mobile industry has been concerned for some time about the long-term viability of A2P SMS and the risk of an imminent downturn in A2P SMS traffic, given the previous experience with P2P SMS.

International A2P SMS traffic and revenues are expected to peak by 2026/2027

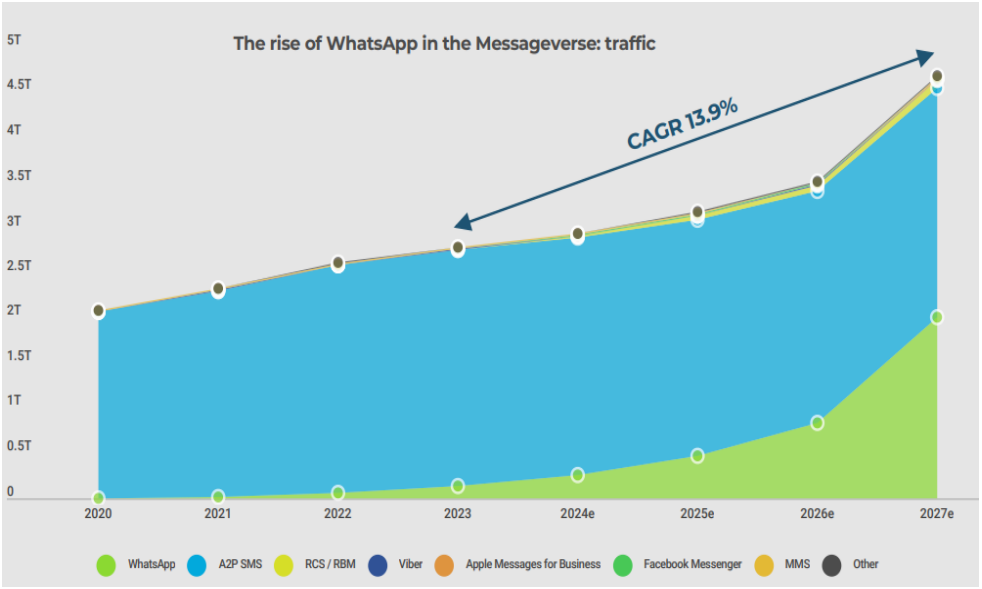
Since 2023, multiple reports from Analysys Mason, Juniper Research, Omdia, Mobilesquared and others have flagged that, while A2P SMS is still the most-used channel for business messaging globally, growth from third-party app messaging is outpacing A2P SMS growth. Analysys Mason forecasts global A2P SMS traffic to increase at a CAGR of 2.6% up to 2027, while third-party app A2P traffic increases at a much faster rate (14% CAGR).

Growth in the business messaging market is coming mostly from in-app messaging and OCS. A2P SMS volumes will be overtaken by volumes on apps by about 2027, both in the UK and globally. Some analysts expect international A2P traffic to peak in 2025, with 2026 the end of the A2P SMS "golden goose", when global A2P SMS revenues start their long-term decline.[7]

For instance, Mobilesquared highlights that the dominance of A2P SMS (accounting for over 90% of global business messaging traffic in 2023) will end by 2027, with WhatsApp Business emerging as the dominant global platform.[8]

[7] See e.g. *Mobilesquared.* *OTT Messaging: Is the Industry ready? - Telemedia8.1*
[8] WhatsApp-Business-Messaging-Traffic-white-paper_Apr-2024.pdf

Figure 3: industry reports expect WhatsApp to match A2P SMS globally by 2027



Source: Mobilesquared. WhatsApp-Business-Messaging-Traffic-white-paper_Apr-2024.pdf

According to these analysts, the total number of business messages sent globally will continue to increase, but A2P SMS's share will fall to just over 50% by the end of 2027. WhatsApp is expected to rise from a very low share to match global A2P SMS volumes by 2027. Most of the growth in the market will come from WhatsApp Business and will offset the projected decline in A2P SMS traffic.

The reports cited above discuss the growing popularity of app messaging, artificially inflated traffic and increases in international A2P SMS termination charges since 2021 as the key drivers of a major decline in A2P SMS volumes and revenues in some markets since 2023, with the volumes in most markets declining by 2027 and global A2P SMS volumes expected to fall drastically by 2029.[9]

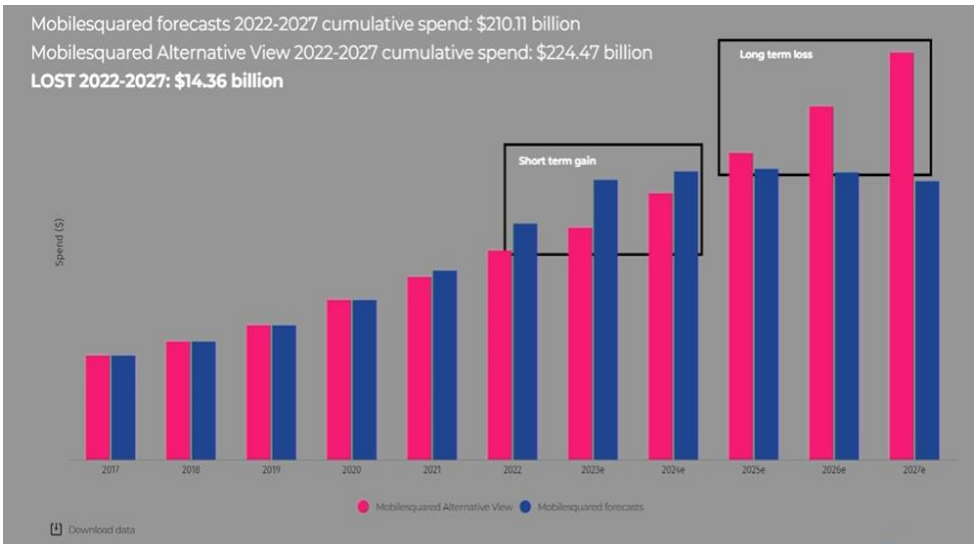
[9] The sudden decline of A2P SMS | Capacity Media. High SMS Rates Damage A2P SMS Opportunity | Mobilesquared. The future of A2P messaging: Challenges and solutions | Capacity Media Business A2P messaging will continue to migrate away from SMS. The Future of A2P SMS: Challenges, Opportunities, and the Path Forward for MNOs | Openmind Networks 240521 GLF Future of Messaging paper v4.pdf The application-to-person messaging market continues to grow steadily, but the position of operators is weakening OTT Messaging: Is the Industry ready? - Telemedia8.1 WhatsApp-Business-Messaging-Traffic-white-paper_Apr-2024.pdf Keeping an eye on what's happening in the UK's A2P SMS Termination Market - Saudishopper. Get the message: why A2P SMS continues to offer value | Orange Wholesale International. WORLD TELEMEDIA 23 A2P SMS set to peak in 2026, with WhatsApp, AIT and pricing undermining the business model - Telemedia8.1 See also MEF Webinar: International Commercial Models – A2P SMS under stress - Blog - MEF. Mobilesquared 2024 "Can mobile operators still make money from messaging in 3 and 10 years from now?". Changes for SMS in the UK | London Daily News

Many of these reports specifically discuss the impact of recent increases in termination rates on A2P SMS revenues and volumes, and why termination rate increases since 2021 are accelerating the demise of A2P SMS. For instance, in its 2024 WhatsApp Business Messaging White Paper, Mobilesquared reports the following:[10]

> *"How turbulence in SMS market is driving WhatsApp adoption… Since mid-2021 mobile operators around the world have increased their international termination...The overall market trend to increase the ITR is leading to a deterioration in market conditions that is creating a bigger, and sooner-than-expected migration of traffic (and therefore brand spend) onto WhatsApp, driving demand in 2024 and beyond*"

The drift of this discussion is the need to align the commercial objectives of individual MNOs with industry needs, and how a narrow focus on short term profits is only going to generate larger losses in the long-term vs more rational pricing strategies (Mobilesquared estimates these at $14.4bn globally, see Figure 4). MCPs are being asked to adopt a longer-term perspective and consider the risk of substitution to other channels when setting individual A2P SMS termination prices.

Figure 4: A2P SMS termination rate increases - short-term profits vs longer-term losses



Source: Mobilesquared. OTT Messaging: Is the Industry ready? - Telemedia8.1

[10] WhatsApp-Business-Messaging-Traffic-white-paper_Apr-2024.pdf

The rise of alternatives and termination price increases are already driving a large-scale migration in the UK

Here in the UK, the rise of these alternatives and termination price increases are already driving a large-scale migration to messaging apps, mirroring global trends. [✂]

Figure 5: A2P business Messaging Market Forecast: UK traffic (millions)

[✂]

Source: 2025 Omdia Business Messaging Market Sizing Tool

Figure 5 shows the extent of the migration that is already underway in the UK. While it is true that A2P SMS is still widely used, business senders and public bodies are directing a growing proportion of their messaging to in-app notifications and OCS:

- A2P SMS has not yet been fully replaced by alternatives (as it has for P2P SMS) – but Messaging App volumes are already comparable to A2P SMS volumes and are growing at a much faster rate (between [✂] times higher, with the delta growing over time). Volumes from OCS and in-app notifications are not growing from very low bases.[11]

[11] Ofcom itself reported in 2023 that A2P messaging via OCS apps in the UK is growing more rapidly than A2P SMS, with the number of A2P messages sent via online messaging increasing from 1.7 billion in 2018 to 5.4 billion by 2022 and estimated to reach approximately 13 billion by 2027. Personal online communication services

- Volumes from messaging apps are growing at the expense of A2P SMS – A2P SMS is still growing in absolute terms, but growth rates are slowing and volumes are expected to plateau by about [✂]. The market share of A2P SMS volumes is already in decline.

- By contrast, most of the growth in the market is coming from Messaging Apps, with volumes growing at [✂] year-on-year up to 2028, the end of Ofcom's proposed market review. Indeed, volumes via Messaging Apps are forecast to surpass A2P SMS volumes by [✂] (within the three-year period of the review), consistent with global trends.

Three's own data shows [✂]

Figure 6: [✂]

[✂]

Source: Three UK

The largest area of growth in the UK market is coming from in-App messaging but OCS is also growing at the expense of A2P SMS.

Some of the largest senders of business messages in the UK have already switched large volumes of A2P messages to in-app notifications and WhatsApp (with SMS used only as fallback when

alternatives are not available or a message has not been read), citing increases in A2P SMS pricing, better functionality and security as the key drivers.

Microsoft, Apple, Amazon, Meta, Google have moved away from SMS two-factor authentication and now use app-based methods due to the high pricing of A2P SMS and for security reasons.[12] Customers who previously received verification codes via SMS must now use an Authenticator app (e.g. Google Authenticator, Microsoft Authenticator), passkey or One Time Passcode via WhatsApp to access their accounts (e.g. Office 365).[13]

This is important because demand for multi-factor authentication from the Hyperscalers (also from banking, finance and government bodies) has been one of the main drivers of A2P SMS volumes, with A2P SMS historically the most important method for multi-factor authentication.

[✂]

The NHS has also moved patient notifications to the NHS app, allowing people to order repeat prescriptions, check their medical records, book appointments or follow up on test results via the app. The aim is not only to improve service for patients and save admin time for frontline staff but also to avoid the cost of sending text messages.[14]

Several UK banks and other financial institutions are axing SMS banking and no longer use SMS One Time Passwords (OTP) to authenticate customers – customers are no longer receiving withdrawal alerts or texts with their account balance and will have to use their banking apps instead.[15] Banks are also using in-app biometric authentication methods to authenticate customers, approve transactions, etc.

A myriad of smaller firms (estate agents, hair/beauty salons, electricians and plumbers, etc) are now using WhatsApp or turning to white label apps to communicate with customers. White label are ready-made apps with generic functionalities that are very popular in a wide range of sectors:

[12] The sudden decline of A2P SMS | Capacity Media
[13] https://isnews.stir.ac.uk/2025/01/13/change-to-microsoft-mfa-verification-code-delivery-for-some-sms-users/
[14] NHS England » NHS App messaging saved NHS more than £1 million in last year
[15] Santander the latest major bank to axe its handy text message alert service | This is Money

- Restaurants and takeaways – allowing customers to book a table, receive booking reminders, order a takeaway, share real-time updates, estimated time of arrival and live location-tracking.

- Estate agents – for agents to show property listings, provide virtual tours, and send viewing reminders to customers.

- Travel and hospitality – for hotels, travel agencies, and booking platforms to offer booking and reservations.

- Fitness and Wellness – for customers to book classes and receive booking confirmations, reminders and alerts.

- Delivery and logistics companies – to optimize routes, track shipments, and send delivery updates to customers.

- e-commerce – for online retailers to provide a digital shopping experience to their customers.

Ofcom has seen no evidence of substitution to A2P SMS alternatives, or that any substitution has been motivated by termination price increases, because it has not sized the market appropriately. Ofcom has not collected data on the usage of in-app notifications or OCS applications (other than WhatsApp for Business). The analysis of market volumes in the consultation is limited to A2P, WhatsApp for Business and operators' fledging RCS Business Messaging (RBM), so growth from all other alternatives has been overlooked.

Ofcom has not assessed the potential impact of regulation on MCP's efforts to combat scam SMS originating from A2P service providers either. Regulation may negatively impact MCPs' ability to invest in infrastructure and measures that protect consumers from scams and spam messages.

In summary, there is no need to regulate. The market is already responding to recent increases in A2P SMS termination rates. OCS and in-app messaging are going to replace A2P SMS as the predominant means of business messaging over the next three years, constraining MCP's ability to raise prices in the future.

At this stage in the development of the UK business messaging industry, it is better to let the market sort itself. The industry just needs time to fully adjust to the new pricing levels. Regulation at this time can only stifle innovation, prevent the growth of substitutable services, and get in the way of the expected evolution of the market.

3. Ofcom's proposed cap risks stifling innovation in the business messaging market

Ofcom's proposed cap may stifle innovation and prevent the growth of substitutable services

Ofcom has noted that the prices set by the four MNOs in December 2020 for on-net termination of A2P SMS serve as a reasonable reference point for a competitive price level. On that basis, Ofcom proposes to cap for all A2P SMS termination set at 1.96p (in Sep 2024 prices) plus inflation.

However, Ofcom has failed to consider pricing from other messaging services when determining the appropriate level of the price cap. As discussed above, the A2P SMS market is shifting toward OCS and in-app solutions, with OCS services exerting a growing competitive constraint. Using WhatsApp for Business as a benchmark provides a reasonable indicator of competitive pricing.

Table 1: UK rates charged for conversation on WhatsApp Business Platform (April 2025)

Message type	Examples	Cost per Conversation (p)
Utility	Transactions (e.g. purchase notifications, billing statements	1.59
Authentication	One-time passcodes for authentication	2.59
Marketing	Offers and promos	3.82
Service	Customer enquiries initiated by users	0

Source: Ofcom consultation

The current A2P SMS rates are set at competitive levels, such that any further price increases beyond this point could drive users towards alternatives like WhatsApp. Pricing for WhatsApp is comparable to that of standard retail A2P SMS prices (2.1p and 5.7p per message depending on the aggregator, as of Q2 2024). As Ofcom itself has acknowledged, "a*t present, the pricing for WhatsApp for Business conversation is within the range of A2P SMS*."

Furthermore, Ofcom's proposed cap of 1.96p per SMS plus inflation is lower than the per-conversation prices charged by WhatsApp for both Authentication and Marketing messages, leading to a potential misalignment in the market.

Although the prices are not fully comparable (as WhatsApp charges per 24-hour conversation whereas Ofcom's cap applies per SMS), this is less relevant for authentication and marketing messages, where one conversation typically equates one message (i.e. consumers are not expected to respond after receiving a one-time password or promotional message).

This discrepancy could artificially suppress A2P SMS prices, weakening the competitive constraints that encourage alternatives to compete with A2P SMS. An artificially low cap would:

- Reduce incentive for users to explore alternative services to A2P SMS, like WhatsApp for Business.

- Reduce incentives for alternative messaging services to improve their offerings, grow and differentiate themselves, hindering the long-term growth of alternative services.

- Limit consumer choice, ultimately preventing the business messaging market from evolving in a way that benefits users in the long run.

Annex 1 – An additional price cap on Interconnect routes is potentially damaging

There is no supporting evidence that points to a need to implement a capped A2P rate at the Interconnect level.

[✂]

Having caps on the second leg of the Interconnect traffic is a very blunt instrument as MCPs cannot distinguish between numeric A2P SMS and P2P SMS. So, it is very likely that a proportion of our P2P SMS traffic will be caught in the capping.

The capping will impede MCPs' freedom to maintain bespoke bilateral arrangement of interconnect rates, creating further restrictions on top of the possible capping imposed in relation to On-net A2P traffic. Furthermore, introducing a capped A2P at the interconnection level will create scenarios that can be exploited by larger MCPs to become dominant aggregators in their own right.

Introducing regulated A2P rates will limit MCPs to the maximum rate they can charge, but there will be no limit on the minimum rate that can be charged. As such, MCPs could utilise lower A2P termination rates to their own networks to cross-subsidise termination to other networks and artificially distort the A2P market in pursuit of higher aggregate volumes. There are well documented examples of this behaviour in other markets, such as South Africa. There should also be a concern that traffic data points that can be gleaned from transiting traffic could be used for unauthorised purposes.